

08 April 2008 *FINAL*

**888 Holdings Public Limited Company**  
**(“888” or the “Company”)**

**Preliminary Results for the year ended 31 December 2007**

888, one of the world’s most popular online gaming entertainment companies, announces its preliminary results for the year ended 31 December 2007.

**Financial Summary**

US\$ million	2007	2006	% change
Net Gaming Revenue			
Casino	118.1	<b>88.8</b>	33
Poker	80.8	<b>68.2</b>	18
Emerging Offerings	14.4	-	-
Total Net Gaming Revenue	213.4 <sup>1</sup>	<b>157.0</b>	36
Other Operating Income	3.6	-	-
<b>Total Operating Income</b>	<b>216.9<sup>1</sup></b>	<b>157.0</b>	38
Operating Expenses <sup>2</sup>	59.1	<b>45.6</b>	
Research and Development Expenses	23.5	<b>19.4</b>	
Selling and Marketing Expenses	70.9	<b>51.0</b>	
Administrative Expenses <sup>3,4</sup>	17.9	<b>24.6</b>	
<b>EBITDA<sup>3,4</sup></b>	<b>45.5</b>	<b>16.4</b>	177
Finance Income and Exchange Gains	6.1	9.6	
Depreciation and Amortisation	(5.8)	(3.8)	
<b>Profit Before Tax from Continuing Operations<sup>4</sup></b>	<b>45.8</b>	<b>22.2</b>	106
<b>Basic EPS<sup>4</sup> (cents)</b>	<b>12.6</b>	<b>5.7</b>	121

**Financial Highlights**

- Profit before tax<sup>4</sup> from continuing operations up 106% to \$46m (2006: \$22m)
- EBITDA<sup>3,4</sup> up 177% to \$46m (2006: \$16m)
- Net Gaming Revenue (“NGR”) up 36% to US\$213m (2006:US\$157m), Total Operating Income up 38% to US\$217m (2006: US\$157m)
- Casino NGR up 33% to \$118m (2006: \$89m)
- Poker NGR up 18% to \$81m (2006: \$68m)
- EBITDA<sup>3,4</sup> margin up to 21% (2006: 10%)
- Basic EPS<sup>4</sup> up 121% to 12.6 cents (2006: 5.7 cents)
- Liquid resources US\$104m (2006: US\$114m)
- Final dividend 5.0 cents, above stated dividend policy
- Following a very strong Quarter 4 last year, 2008 started well with further growth and the group is confident about our prospects for 2008

<sup>1</sup> Rounded

<sup>2</sup> Excluding depreciation of US\$4.2 million (2006: US\$3.8 million) and amortisation of US\$1.6 million (2006: US\$ nil)

<sup>3</sup> Excluding exchange gain of US\$1.1 million (2006: US\$4.7 million)

<sup>4</sup> Excluding share benefit charges of US\$7.8 million (2006: US\$8.8 million)

## Operational Highlights

- Sports betting platform, 888sport, launched in March 2008
- New Bingo brand, 888Ladies, launched in February 2008
- First strategic partnerships signed and launched
  - Rileys Snooker Halls – UK
  - Tower Torneos – Latin America
  - LuckyAce – Europe
- First ever acquisition completed - the Bingo business of Globalcom Limited - successfully completed and integrated into 888's umbrella offering
- Introduction of Backgammon
- Quarterly Casino and Poker active customers increased by 11% to 209k (Q4 2006: 189k)

Commenting, Gigi Levy, CEO of 888 said:

*"2007 was a year of transformation for 888, in which we had to restructure our business following the enactment in the United States of the Unlawful Internet Gaming Enforcement Act in October 2006. I am very pleased to report that we have now successfully completed the restructuring and repositioning of the business and have delivered record results for the year, both in terms of revenue and profit. This demonstrates the resilience of our business, the strength of our team and the continued attractiveness of our business model. With many strategic initiatives now underway, we see a bright future for the business."*

- ends -

An audio replay of the presentation to analysts will be available from the investor relations section of 888's website (<http://www.888holdingsplc.com>) from late afternoon today.

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## Chairman's Statement

On behalf of the Board of 888 Holdings plc, I am pleased to present the financial results for the year ended 31 December 2007. This was our first full year of operating without our former largest market, the US. We have successfully re-focused our operations into other markets with fantastic results. Our success is manifested by our recent return to the FTSE250 and by industry accolades such as "Best Betting and Gaming Company" at the Leisure Report Awards 2007, "Casino of the Year" and "Best Land - Links Partnership" at the eGaming Awards 2007 as well as "Casino of the Year" at the Gambling Online Awards 2007.

Our first ever acquisition was completed in May with the purchase of the online Bingo business of Globalcom Ltd., and has proven to be a great success with excellent financial results following its integration into 888's offering umbrella.

The year was marked as a year of innovation and initiatives – we have expanded our business model by offering our full service on a 'white label' basis to selected business partners as demonstrated by our strategic alliances with Rileys Poker in the UK and Tower Torneos in Latin America, obtained an online sportsbetting licence in Italy, introduced a targeted local offering in Asia through Live Dealer and released our first ever branded Video Slot Machines to name a few.

I would like to thank all 888 employees, our management and our customers for making 2007 an outstanding year.

### Financial Results

2007 was a phenomenal year for us. NGR increased 36% to \$213 million (2006: \$157 million) with Total Operating Income increase of 38% to \$217 million (2006: \$157 million) driven by turnover growth from both our core Casino and Poker products and from the introduction of new products, particularly Bingo. Profit Before Tax\* showed remarkable growth and increased 106% to \$46 million (2006: \$22 million).

### Dividend

Given our strong financial results, in addition to our interim dividend of 1.8 cents per share paid in October 2007, the Board has recommended a final dividend of 5.0 cents per share.

### Our Values

During 2007 we outlined and implemented our core values that represent the philosophy by which we operate. We take pride in our ability to consistently maintain them. Our values were implemented across all parts of the organization, and comprise excellence, innovation, caring, customer centricity, leading and collaboration.

### Responsible gaming

Responsible gaming is a fundamental pillar of our business. Our aim is to ensure our services are used responsibly, and are fair and transparent. We work hard to raise awareness through education and to provide our staff with first rate tools for ensuring a responsible gaming environment. In 2007, we were awarded for the first time "Gamcare" certification, recognizing 888's dedication to customer protection.

We also launched our responsible gaming website ([www.888responsible.com](http://www.888responsible.com)) where we offer comprehensive and easily accessible information about responsible gaming practices, dealing with problem gambling, preventing underage gambling and more.

### Outlook

Building on a great 2007, we have introduced our new Bingo brand, 888ladies, and launched 888sport, our Sportsbook offering. Quarter 1 of 2008 started well across our business, particularly in our new Bingo and Sportsbook offering. Your Board believes we are well positioned to develop and grow our business in this exciting and expanding space for the foreseeable future.

**Richard Kilsby**  
Chairman

\* Excluding share benefit charges of US\$7.8 million (2006: US\$8.8 million). Continuing operations.

## Chief Executive's Review

2007 was a year of transformation for 888, in which we had to restructure the business following the enactment in the United States of the Unlawful Internet Gaming Enforcement Act ("UIGEA") in October 2006, which resulted in us losing 55% of our revenues almost overnight.

I am very pleased to report that we have now successfully completed the restructuring and repositioning of the business and have delivered very strong results for the year, both in terms of revenue and profit. We have emerged a better company, clearer in our strategy, more diverse and complete in our offering, with a stronger presence in more markets and much greater local, "in-country" focus. We have also restructured our senior operational management team, with a mix of experienced managers from within the Group and seasoned executives recruited from other industries, enabling us to innovate where the industry has been slow to change in recent years.

The financial results speak for themselves: the 106% Profit Before Tax\* growth to \$46 million and 38%. Total Operating Income growth to \$217 million demonstrate the resilience of our business, the strength of our team and the continued attractiveness of our business model. With basic earnings per share\* of 12.6 cents and strong 2007 we have fully recovered from the effects of UIGEA. With various strategic initiatives now underway, we see a bright future for the business.

These are excellent results and given our strong financial performance, we will be paying a final dividend of 5.0 cents per share, in addition to the interim dividend of 1.8 cents per share paid in October 2007.

### Delivering on our strategy

Our success in 2007 was based on a clear strategy and business focus coupled with great execution. Our strategy was founded on the same principles that had made us successful in previous years but building on these core principles in order to incorporate several new directions allowing us to accelerate growth. We continued focusing on acquiring and retaining valuable customers by delivering a compelling, localised, innovative, unique and entertaining customer experience while embarking on new initiatives. These initiatives included strategic partnerships, the use of new and innovative marketing channels, the integration of third party games, the introduction of enhanced communication and entertainment features and a revolutionary gaming environment in which customers can access all games from a single location.

2007 was a phenomenal year in terms of the development of our offering. We introduced an "industry-first" with our first fully-integrated gaming environment, which allows access to all of our games from one location. This approach clearly enhanced revenues from customers who were able, for the first time, to play any game they wanted without limitation and enabled us to better cross-sell and up-sell to our customers. The success of this approach is now proven and we will continue to provide an integrated environment to more customers and add more games into this environment.

Another significant development effort centred on opening our platform to easy integration with games from other providers. Whilst we will continue developing our own core games and technological infrastructure, we will carefully select "best-of-breed" partners to provide us with additional games, particularly those with a local flavour, which will assist us in penetrating local markets. The first of these games is being introduced and we plan to leverage this infrastructure investment and integrate various additional games in the coming years, with a number already in the pipeline for 2008. This capability will enable us to leverage the Internet's 'long tail' phenomena as we have no 'real estate' costs in putting more games into our software client. The introduction of additional games, even if they will only be played by a small percentage of our customers will have a positive return on investment.

One of the key focuses of our development effort was the integration of a Sport betting platform into our offering. This process was successfully completed towards the end of the year and the service was recently launched. We have also introduced a live-dealer solution with our Asian partner, Entertasia, which will increase our presence in the Asian market. Early 2008 saw the introduction of [888ladies](#) which is positioned to appeal to a whole new market for the Group. With these new products we now have a strong and complete portfolio, with our business based on the four core pillars of Casino, Poker, Sports betting and Bingo together with supplementary Backgammon and Live-Dealer products.

*\* Excluding share benefit charges of \$7.8 million (2006: \$8.8 million). Continuing operations.*

During the year we managed to upgrade and improve all of our existing platforms, introducing new Casino and Poker versions with additional games, innovative features and a better overall interactive customer experience. One such enhancement was the introduction of our first-ever branded game – the 'Blond Legend' video Slot which was an immediate success, and another was our innovative Poker client allowing users to choose a 3D or 2D view with a rotating table and various additional features.

Finally, given the focus on geographic expansion, we succeeded in completing the translation and localisation of all our Casino games into the 14 languages we currently support on top of expanding our language proposition with two brand new languages. This major effort resulted in an immediate increase in revenues in markets which previously were not supported by a fully localised product.

As in previous years, we were proud to see our innovative, market-leading offering being selected for various awards, including the prestigious '*Casino of the Year*' award both in the eGaming and the Online Gambling Awards.

From a marketing perspective, 2007 was focused on additional brand building, innovative marketing tools, loyalty increasing programmes and a significant drive on local and integrated marketing efforts. Overall we had a very good year in which we managed to grow our business whilst keeping marketing spend at 33% of NGR.

In terms of brand building, we have invested in re-launching the 888 brand in conjunction with our '*Enjoy the Game*' tagline across all media channels and markets. This new campaign delivered our best ever brand awareness as reflected in surveys conducted in the UK and Spain. This campaign was a milestone in our brand building efforts.

For the first time ever, in 2007 we invested in web 2.0 marketing channels, including viral campaigns based on a combination of professionally crafted and user generated content. We have also integrated various additional innovative online marketing tools in various areas, especially in the search engine domain, which allowed us to keep our marketing costs within the challenging budget that had been set.

Customer Relationship Management ('CRM') has always been one of our core competencies with our industry leading service levels and the personal service we are known to provide to our customers. 2007 saw further enhancements with the publication of the first two issues of our premium customer magazine 'Eight', our improved loyalty programme and implementation of improved communication and promotional tools. Coupled with our world-famous VIP programme, our CRM approach has ensured a very successful 2007 in terms of customers' life time value and loyalty.

Our marketing success in 2007 relied fully on a localised and integrated approach. We implemented better co-ordination across the Group and comprehensive monitoring of our activities in every market. We signed more local TV deals across Europe, and benefited from extensive international coverage of our successful sponsorships of the World Snooker Championship and Sevilla Football Club. The outcome of these localisation efforts is apparent in our numbers, which show far better geographical diversification, with our European market increasing to 42% of our business in 2007 compared to 36% in 2006. We are most satisfied with our growth across various markets and will continue investing in localised integrated marketing efforts in 2008 as we continue to penetrate yet more new markets.

The most significant strategic move in the year was our decision to expand our pure business-to-consumer business model with a combined approach which includes working with carefully selected strategic business-to-business partners. Under the "Powered by 888" endorsement, we have launched a new line of business as a service provider to virtual operators. We launched three new partnerships in 2007 with Riley's in the UK, Tower Torneos in Latin America and LuckyAce in Europe. More such partnerships will follow with several already in the pipeline.

This new area of our business received a significant boost with our acquisition of the Bingo assets of Globalcom in May 2007. This transaction positioned 888 at the forefront of online Bingo service providers, serving leading business partners such as Cashcade, operating Foxy Bingo, Bingo Scotland and a number of other well-known brands. We have already secured additional Bingo deals, including with WinkBingo, a newly launched Bingo network.

While the core of our business remains in the business-to-consumer area, this new approach enables us to better leverage our investments and generate additional revenues and profit streams from market segments where penetration would require significant additional effort and marketing spend. This activity has already contributed to our bottom line in 2007 and is expected to grow in importance in the coming years as we announce new deals. Our success resulted in the '*Best Land-Links Partnership*' award in the eGaming awards is a clear indication of the innovative nature of our approach in this area.

During 2007 we successfully integrated our acquired Bingo assets which now work as a seamless part of our business. On top of this successful integration, we have managed to accelerate the growth of the

Bingo business which grew phenomenally throughout the year. This now proven ability to acquire value-enhancing assets and integrate them into our business underlines the validity of our M&A approach and therefore we will continue to look for the right opportunities to supplement our strong organic growth.

In addition to our strong financial results, our overall performance was acknowledged in our securing, for the first time, the '*Best Betting and Gambling Company*' award in the 2007 Leisure Report awards.

Finally, we continue to be indebted to our fantastic team of employees who have succeeded in delivering the outstanding 2007 results. We have a phenomenal team at all levels, with extremely talented individuals who are led by a world-class management team. To maintain this team and ensure their ongoing motivation we continue to strive to be the employer of choice. These efforts have resulted in successful new recruits into the Group. Our employees will remain a key part of our focus in the years to come.

## **Regulation**

While the regulatory landscape remains unstable in some regions, 2007 saw some positive developments. In Europe, the European Court of Justice's ruling in the Placanica case restated the importance of EU regulations to our industry. This decision, together with the recent infringement actions and position letters from the European Commission, marks a very positive development enabling EU licensed operators, such as 888, to provide their services throughout the European Union. Moreover, we have seen a trend throughout the year of additional European jurisdictions embarking on a path to license and regulate online gaming, a route which we clearly welcome.

Outside of Europe we have seen initial signs of positive regulation both in Asia Pacific and Latin America, where newly introduced regulations in some jurisdictions could allow us to benefit from working in a locally licensed environment. As previously stated, we see these to be very positive developments as we continue to pursue a clear regulatory framework for all jurisdictions in which we operate. We will continue to monitor the regulatory landscape and to look for opportunities to operate in regulated markets.

As stated in our announcement dated 5th June 2007, we have initiated preliminary discussions with the United States Attorney's Office for the Southern District of New York relating to our activity in the US prior to the signing of the UIGEA. It is too early to assess any particular outcome of these discussions.

## **Responsible gaming**

2007 was also a turning point in our approach to responsible gaming. Whilst 888 has always been a leader in supporting the prevention of problem and underage gambling we recruited a dedicated executive to handle these important issues. We have, as a result, introduced both enhanced tools and policies giving us an even tighter control on problem and underage gamblers. These efforts were acknowledged by Gamcare who awarded us their responsible gambling certificate. Recently, our educational efforts developed even further with the introduction of [www.888responsible.com](http://www.888responsible.com), a website dedicated for providing access to tools which identify and deal with problem gambling. This industry-first educational effort and our additional activities in the area mark our continued commitment to prevent problem and underage gambling.

## **Our 2008 focus**

2008 will see the continued execution of our strategy with accelerated innovation facilitated by the investment made in our infrastructure in 2007. Now that we have delivered all of the required products, developed integration capabilities and white labelling capability together with a far deeper localised offering, we can focus on the monetisation of these assets.

In terms of our offering, our plans include the introduction of several new games, with a strong focus on localised games which will continue to support our push into new markets. We will continue to develop our relationships with third party games providers to ensure that we will not miss any exciting, potential "hit" games. We will also introduce various new innovative features such as increased personalisation, tournaments around Casino games and more content and entertainment across our product portfolio.

From a marketing perspective, 2008 will see further investment in our brand and the use of additional innovative marketing channels. We will also introduce some major events such as the recently launched \$3 million World Poker Crown Poker tournament and a major event planned for the 8 August 2008 – the "888" date!

On the business-to-business front, we aim to sign and launch more strategic partnership deals as a means to accelerate our growth.

## Outlook

2008 has started well, especially with our recently introduced female-oriented Bingo proposition, 888ladies. This innovative website, which already boasts thousands of active customers daily, is performing above our expectations.

The recent launch of our Sports betting proposition, 888sport, is already generating revenues and - coupled with several more planned product launches, we expect our offering to continue being one of the main growth drivers of our business.

With our current strategic partnerships performing well, we are progressing with additional potential partners and we expect at least one new partnership to be launched in 2008.

Given the positive start to 2008, the successful launch of 888ladies and 888sport, our strategic partnership deals, current trading and our clear business strategy and focus, we are confident in delivering future growth during 2008.

**Gigi Levy**  
**Chief Executive Officer**

## Enhanced Business Review

### Introduction

888 Holdings plc is one of the world's most popular online gaming entertainment companies. 888 owns and operates various world renowned websites, including [www.888.com](http://www.888.com), [www.Casino-on-Net.com](http://www.Casino-on-Net.com), [www.pacificpoker.com](http://www.pacificpoker.com), [www.888ladies.com](http://www.888ladies.com) and [www.888sport.com](http://www.888sport.com).

In 2007, 888 continued to follow its strategy of expanding and diversifying its business on the basis of this strong foundation. During the year, 888 acquired the business and assets of a market leading Bingo network operator, it added the in-house developed Backgammon to its offering and an online Sportsbook licensed in Italy. Recent additions include the global rollout of an international Sportsbook offering in six European countries. In a key strategic move, 888 has also expanded its business model, leveraging its existing assets and brand reputation, by licensing its software and unique services to carefully selected "white label" partners who allow 888 to penetrate new markets. 888 is indeed *the* home of online gaming entertainment.

2007 was 888's first full year without a contribution from the US market, after the cessation of its operations in that market in October 2006. It was a year characterised by rapid growth, with a 38% increase in Total Operating Income and a 106% increase in Profit Before Tax\*, as the Group refocused its activities on non-US markets by localising its product offerings and releasing more games in more languages than ever before.

The addition of Casino games into the Poker client has dramatically increased the revenue stream from 888's traditional core product, and has signalled continued progress towards the ultimate goal of providing all of its offerings through a single, unified client. In addition, 888's offering benefited from the addition of Backgammon to its suite of games, and also enhanced the appeal of existing games by adding both contemporary and themed games such as the sports themed "rough rugby" and Marilyn Monroe inspired "Blond Legend" Video Slots.

The immediate success of 888's new white label strategy was demonstrated by the partnerships developed with Tower Torneos in Latin America, Rileys Poker in the UK, and Lucky Ace in Europe.

888's Italian customers have enjoyed the launch of a dedicated online Sportsbook proposition which has not only provided invaluable experience from 888's first foray into this product type but also, through its licensing by the Italian Government, further validated 888's regulatory and licensing credentials.

\* Excluding share benefit charges of US\$7.8 million (2006: US\$8.8 million). Continuing operations.

In addition to its organic growth and in-house development, 888 completed its first ever acquisition through the acquisition of the assets comprising the online Bingo business of Globalcom Ltd. in May 2007. This business has now been successfully integrated into 888's existing operations.

At the end of 2007, 888 entered into a deal with Blue Square which allows the Group to offer a sportsbetting product to all of its customers in early 2008. This deal completes the Group's aim to provide a "one stop" betting and gaming proposition to its customers. As an added benefit, 888 has moved closer towards its goal of providing a full multi-currency offering.

The Bingo acquisition and the partnership with Blue Square represent new, previously unexplored growth avenues. The addition of the Bingo business is the first time 888 has opted for growth by acquisition, and demonstrates its ability to identify, execute and integrate profitable external opportunities.

2007 was 888's tenth anniversary and, as in previous years, 888's excellence and market leading position was acknowledged by third parties. 888 was recently awarded "Best Betting and Gaming Company" at the Leisure Report Awards 2007, "Casino of the Year" and "Best Land - Links Partnership" at the eGaming Awards 2007 as well as "Casino of the Year" at the Gambling Online Awards 2007.

## Review of Financial Results

### Financial Summary

	Year ended 31 December 2007	Year ended 31 December 2006	% change
	\$ million	\$ million	%
Net Gaming Revenue			
Casino	118.1	88.8	33
Poker	80.8	68.2	18
Emerging Offerings	14.4	-	-
Total Net Gaming Revenue	213.4 <sup>1</sup>	157.0	36
Other Operating Income	3.6	-	-
<b>Total Operating Income</b>	<b>216.9<sup>1</sup></b>	<b>157.0</b>	<b>38</b>
Operating Expenses <sup>2</sup>	59.1	45.6	
Research and Development Expenses	23.5	19.4	
Selling and Marketing Expenses	70.9	51.0	
Administrative Expenses <sup>3</sup>	17.9	24.6	
<b>EBITDA<sup>3,4</sup></b>	<b>45.5</b>	<b>16.4</b>	<b>177</b>
Finance Income and Exchange Gains	6.1	9.6	
Depreciation and Amortisation	(5.8)	(3.8)	
<b>Profit Before Tax from Continuing Operations<sup>4</sup></b>	<b>45.8</b>	<b>22.2</b>	<b>106</b>

<sup>1</sup> Rounded

<sup>2</sup> Excluding depreciation of US\$4.2 million (2006: US\$3.8 million) and amortisation of US\$1.6 million (2006: US\$ nil)

<sup>3</sup> Excluding exchange gain of US\$1.1 million (2006: US\$4.7 million)

<sup>4</sup> Excluding share benefit charges of US\$7.8 million (2006: US\$8.8 million).

## Financial Results

### Total Operating Income and NGR

The Group achieved strong financial results in 2007 with NGR increasing by 36% to \$213.4 million (2006: \$157.0 million), Total Operating Income increasing by 38% to \$216.9 million (2006: \$157.0 million), EBITDA\* increasing by 177% to \$45.5 million (2006: \$16.4 million) and Profit Before Tax\* from continuing operations increasing 106% to \$45.8 million (2006: \$22.2 million).

NGR increased strongly in both Casino and Poker, and also from the introduction of new products ("Emerging Offerings"). These products, particularly the newly acquired Bingo business (since 17 May 2007), generated \$14.4 million NGR in 2007. In 2007, the Group introduced, for the first time, the option for customers to transact in their local currency, and as a result, other operating income has been generated representing fees from processing customers' cross-currency deposits and withdrawals effectively reducing costs associated with payment service providers.

### Geographical segmentation

As the table below illustrates, in 2007, Europe (excluding the UK) showed dramatic growth of 58%, with strong growth from both Poker and Casino, followed by the UK, which grew by 32%. The Rest of the World, mostly attributable to the Asia Pacific region, also grew rapidly by 35% compared to 2006. Growth in the Americas (excluding the USA) was modest.

As a result of the strong revenue growth during the year in Europe (excluding the UK), this region now represents 42% of 888's total operating income compared to 36% in 2006.

Total operating income by geographical market:

	Year ended 31 December 2007		Year ended 31 December 2006		2007 Growth
	\$million	% share	\$million	% share	%
Total operating income					
UK	93.0	43	70.6	45	32
Europe (excl. UK)	90.1	42	57.1	36	58
Americas (excluding USA)	18.0	8	17.6	11	2
Rest of World	15.9	7	11.8	8	35
Total	216.9*	100	157.0*	100	38

\* Rounded

### Casino

The Casino business was one of the main drivers for the Group's strong revenue growth in 2007, with a NGR increase of 33% to \$118.1 million (2006: \$88.8 million). The continued localisation of the Casino software client by providing the offering in additional languages and the introduction of the Casino games into the Poker client was an instant success, and was the source of much of this growth. This growth demonstrates the high potential for cross-selling services in a unified offering.

\* Excluding share benefit charges of US\$7.8 million (2006: US\$8.8 million).

Casino growth was driven predominantly by the popularity of 888's ever expanding selection of Video slot machines. Video slot bet levels increased year on year by a staggering 108%. It is expected that this trend will continue well into 2008 and is anticipated to be boosted by the planned integration of a wide variety of new third party games. The continued popularity of Roulette and Blackjack supported continued growth that has resulted in an improvement to overall house edge on Casino games; House edge increased from 2.9% in 2006 to 3.1% in 2007. The Group will continue to encourage customers to migrate towards its higher margin games.

#### *Poker*

The Poker business also delivered strong growth in 2007 with NGR increase of 18% to \$80.8 million (2006: \$68.2 million). This growth was driven mainly by the popular Texas Hold'em and Omaha ring games which appeal to a broad spectrum of customers. The attraction of ring games resulted in a 25% growth in bet levels compared to 2006. The Group's tournaments benefited from the introduction in June of "re-buy" and "add-on" functionality. Poker growth was also driven by the introduction of the white label business model - the launch of Rileys Poker and the Tower Torneos offering.

For consistency, NGR from Poker excludes NGR generated by customers playing Casino games from the Poker platform, which increased overall revenue and helped retain customers for longer.

#### *Emerging offerings*

Emerging Offerings contributed \$14.4 million of NGR during the year, representing 6.8% of total NGR. This revenue is primarily generated by the Bingo business (acquired in May 2007), but also by the newly introduced Backgammon offering (April 2007). It is expected that these new games will generate higher NGR in 2008.

The Group's Bingo business generates royalty revenue both from its position as a software licensor and network provider to a number of popular household name brands such as [www.thinkbingo.com](http://www.thinkbingo.com) and [www.foxybingo.com](http://www.foxybingo.com), and also NGR from customers playing on the Group's own websites including [www.888ladies.com](http://www.888ladies.com) and [www.bingoballroom.com](http://www.bingoballroom.com).

Over the short time that the Backgammon has been available, its main benefit has been as a retention tool and an expansion to the range of entertainment products on offer, enabling the Group to service a dedicated market segment, allowing casual customers the opportunity to test their skills.

#### *Expenses*

Effective cost control during the year has resulted in slower expense growth than revenue growth, with expenses\* increasing by only 22% compared to 38% total operating income growth.

Salaries and benefits, representing the largest component of operating expenses, increased by 30% to \$31.0 million (2006: \$23.8 million). The additional headcount related to the Bingo business and the expansion of the Group's regional focus, were a major source of this increase. Modest salary increase and headcount increases across the business contributed the remainder.

The second largest cost item in operating expenses is commissions paid to Payment Service Providers, which totalled \$13.4 million (2006: \$9.1 million) representing 6.3% of NGR (2006: 5.8%). When stripping out Emerging Offerings, this ratio stands, in 2007, at a comparable 6.0%.

The Group places strong emphasis on risk management procedures, which resulted in a decrease in its chargeback ratio to 1.3% of NGR in 2007 (2006: 1.6%).

Intangible assets from the Bingo acquisition were amortised during the year, which contributed an additional non-cash expense of \$1.6 million (2006: nil) to operating expenses.

The continued investment in the Group's products aimed at expanding the range and appeal of its offering has resulted in an increase in research and development expenses in 2007 by 21% to \$23.5 million (2006: \$19.4 million). This increase directly relates to headcount expansion and salary increase in order to attract and retain a highly skilled work-force, as the Group develops most its proprietary software internally.

\* Expenses include operating expenses (excluding share benefit charges), research and development, selling and marketing and administrative expenses

Marketing expenses during the year reached \$70.9 million (2006: \$51.0 million), representing a stable rate of 33% of NGR, demonstrating sustained marketing efficiency. In 2007, the Group focused on a rapid expansion of its affiliate channels. This expansion enabled cost control per new customer acquisition and a means of quickly penetrating new markets. Attracting valuable new customers at the right cost is a key driver of 888's business profitability. In 2007 the Group continued to be focused on attracting, and retaining, customers from selected segments which are most profitable and optimising the recruitment channel to cost. During the year 888's marketing operations recruited more than 260,000 new Casino and Poker First Time Depositors ("FTD's") from more than a million new real money registrations with an average Cost Per Acquisition ("CPA") in 2007 of \$225 (2006: \$183)\*.

Administrative expenses\*\* decreased by 15% to \$16.9 million (2006: \$19.8 million), mainly driven by the departure of the former Chief Executive Officer which triggered a non-recurring payment of \$2.75 million. Professional fees also decreased as post-UIGEA the Group looked to balance the change in costs of this nature.

#### *Share benefit charges*

As part of 888's commitment to invest in human capital, eligible management and employees received in the past equity awards under the 888 All Employee Share Plan ("Share Plan"). In 2007, as in 2006, the Group continued to award shares and options to employees under the terms of the Share Plan. The non-cash charge for 2007 was \$7.8 million (2006: \$8.8 million), comprising a \$1.8 million charge relating to grants in the current year (2006: \$2.5 million) and \$6.0 million relating to grants made in the past.

#### *Finance Income*

With the Group continuing to generate and retain cash surpluses throughout the year, net interest income remained stable at \$5.0 million (2006: \$4.9 million).

#### *Profit and Earnings per share*

As a result of strong revenue growth, stable marketing to turnover ratio, maintaining strong cost control and better management of resources, Profit Before Tax\*\* increased dramatically by 106% to \$45.8 million (2006: \$22.2 million).

Profit Before Tax\*\* from continuing operations delivered a margin of 21% (2006: 14%), further testament to the Group's strong operational gearing throughout the year, a remarkable achievement given the changes imposed by discontinuing its offering in the US.

While the Group did not operate in the US in 2007, the small loss from discontinued operations related to legal fees incurred in connection with its past activities.

Basic Earnings per share more than doubled at 12.6¢ in 2007 (2006: 5.6¢).

#### *Dividend*

The Group's stated policy is that it anticipates adopting an annual dividend payment ratio of approximately 50% of profit, but the policy would reflect long term earnings and cash flow potential of the Group. On 31 October 2007, the Company paid an interim dividend of 1.8 cents per share totalling \$6.1 million (2006 interim dividend totalling \$23.1 million) (in 2006, the dividend included earnings from discontinued operations). Given the strong financial performance in 2007, the Board recommends a final dividend of 5.0 cents per share.

#### *Cash flow*

The Group's strong profitability during the year was matched by strong cash generation with cash generated from operating activities reaching \$46.2 million.

During 2007, the Group made cash payments of \$20.0 million in respect of investing activities (2006: \$3.6 million), primarily relating to the Bingo acquisition.

In addition, the Group returned \$36.2 million (2006: \$28.7 million) in dividends to its shareholders consistent with its dividend policy.

The Group's cash position as at 31 December 2007 remained strong at \$104.3 million (31 December 2006: \$114.4 million). This is a positive position given that the Group has no debt.

\* Excluding customers recruited on a revenue share basis

\*\* 2007 excluding Share benefit charges of \$7.8 million (2006: \$8.8 million)

## *Balance Sheet*

The Group's balance sheet remains strong, as it has no debt, but retains ample liquid resources, including the ability to repay all customers' balances on demand at any time.

As a result of the Bingo acquisition 888 recognised intangible assets and goodwill totalling \$40.7 million after the amortisation of intangibles of \$1.5 million in the year. Goodwill, valued at \$37.9 million (2006: \$nil million), was not impaired at 31 December 2007 as per a review performed by the Board.

Cash and cash equivalents as at 31 December 2007 remained strong at \$104.3 million (31 December 2006: \$114.4 million). The slight decrease in the cash position during the year, despite strong cash inflows from operations of \$49.3 million, is a result of the consideration paid in respect of the Bingo acquisition of \$17.1 million, and payment of dividends of \$36.2 million (2006: \$28.7 million) to shareholders.

Trade receivables have increased to \$13.4 million (2006: \$6.2 million), the increase resulting from higher payment processing activity during the year, which peaked towards the end of the year. Most balances were fully settled immediately after the start of 2008.

Deferred consideration of \$25.1 million payable in respect of the Bingo acquisition is the main reason for the increase in trade and other payables by \$35.1 million to \$63.0 million (2006: \$27.9 million).

Balances owed to customers increased by 17% to \$26.4 million (2006: \$22.7 million) representing growth in business volume, in part being due to the new Bingo activity.

## **888's Strategy**

888's goal is to create the largest community of people who play online for money and grow its annual revenue and profit numbers to a level greater than when its US business closed in October 2006. To achieve this goal, 888 must give its customers the ultimate customer experience whilst maintaining focus on acquiring and retaining customers by delivering a compelling, localised, innovative and unique offering. Given its 2007 success, 888 remains committed to its strategy, the main cornerstones of which are:

- Thinking Global while Acting Local
- Enhanced and Innovative Offering
- State of the Art Integrated Marketing
- Customer Intimacy
- Market Leading Customer Service
- Focused, Efficient and Effective Organization
- Employer of Choice

***Thinking Global while Acting Local:*** *Providing the right customer experience must have a local flavour.*

The withdrawal from the US market meant that 888's principle of "thinking global while acting local" became more important than ever. Aiming to penetrate new markets simultaneously, 888 had to quickly enhance its local focus. In 2007, 888 achieved a greater regional focus and localisation than ever before. All of 888's Casino games were provided in 14 languages with full customer support. The payment system backbone was also upgraded to allow multi-currency deposits and withdrawals. These features succeeded in generating additional revenues immediately. 888 will continue to be focused on improving localisation in 2008 and beyond, by enhancing its offering with even more local games.

***Enhanced and Innovative Offering:*** *Offering a full range of entertainment options to customers.*

In 2007, 888 launched its acquired Bingo and in-house proprietary Backgammon offerings, added additional video Slot machines and upgraded the Poker and Casino versions. The "one-stop shop" unified offering was introduced enabling customers to play any game they want with easy access from one platform. In Quarter 1 of 2008, the sports betting offering was introduced, which completes the desired range of offerings. 888 aims to add more content, information and community tools to its offering, and, through partnerships with alternative platform owners, to spread this offering beyond internet boundaries into hotels, airplanes and onto mobile telephones.

**State of the Art Integrated Marketing:** *Creating an integrated marketing approach between channels and across the company.*

2007 saw 888 continue its extensive investment in its brand. The “*enjoy the game*” tagline was introduced to the 888 brand, and reached phenomenal levels of brand recognition in both the UK and Spain. Additional 888 brands were launched such as “888ladies” and “888sport”. As part of the drive towards both increasing localisation and a more fully integrated marketing approach, 888 has identified local consultants in selected key markets for better coordination and monitoring of its activities in these markets. 888 signed and launched initial strategic partnerships with Rileys and Tower Torneos which allow it greater penetration to distinct local markets. 888 plans to sign further similar partnership deals in 2008.

**Customer Intimacy:** *Using knowledge about Customers to optimise their customer experience while prioritising resource allocation.*

888 has continued its focus on studying its customers' online behaviour more closely, in order to improve its knowledge of their betting habits and preferences. From direct contact with customers, by market research of their behaviour and through a detailed analysis of trends using its in-house data warehouse, 888 has continued to refine how best to engage, thrill and retain its customers.

**Market Leading Customer Service:** *Providing the industry's best customer service.*

The drive towards increased penetration into new markets was coupled with the need to expand customer support to non-English languages. As part of these significant changes, 888 achieved its best ever results in its customer satisfaction surveys.

**Focused, Efficient and Effective Organization:** *Remaining competitive by having an efficiently run operation maintaining its focus on 888's particular plans and goals.*

2007 saw 888 achieve a 38% increase in revenue with only a 9% increase in year-end headcount. In 2008, 888 will continue with strong cost control to ensure high profitability levels are maintained and further improved.

**Employer of Choice:** *Aiming to be the employer of choice.*

888's most important asset is its human capital. 888 has a skilled, committed work force who have remained with the Group since the early days and these have been joined by highly talented employees who have been recruited during the last year. It would not have been possible to achieve the phenomenal results in 2007 without the enormous efforts of these employees. 888 aims to retain its employees, ensure their motivation and to attract further leading talent to secure future success by continuing to be the employer of choice in the market.

## **2007 Business developments**

### **Marketing and CRM**

2007 was a busy and highly successful year for 888's industry leading marketing activities. The marketing function was restructured under four key work-streams: acquisition, retention, branding and white label partnerships. This has enabled solid performance of the business in terms of acquisition and retention, in addition to allowing significant focus on the three priority areas:

- Branding and integrated marketing
- Customer Relationship Management
- Strategic partnerships / White labels

#### *Branding*

For a number of years, the Group has enjoyed the highest level of brand awareness in the sector in its key markets. “888” has always been associated with reliability, trust and leading customer service, all of which are important attributes for the success of the business. In 2007, the Group started to build on this awareness with a strong, differentiated and more emotionally persuasive brand positioning: [www.888.com](http://www.888.com) “*Enjoy the game*”. During 2007, the Group rolled out its first ever TV campaign supported by press and signage across the UK and in a number of other territories. By the end of 2007 the brand saw significant improvement in key brand attributes.

The clear, focused brand positioning also enabled more integrated marketing. In 2007, there was considerable focus behind fully integrated marketing campaigns; leveraging consistent and complementary messages across all marketing channels. This resulted in communication with a real impact, which attracted more first time depositors and reinforced retention activities.

### *Customer Relationship Management*

As the Group evolves, it continues to recognise the significance of a well resourced Customer Relationship Management department. As such, 888 has continued to invest substantially in both financial and human resource terms in the CRM department in 2007.

The CRM team is tasked with both creating loyalty and augmenting expenditure by ensuring that customers both play and stay with the Group for as long as they continue to *enjoy the game*: playing more games, more often, and for more time. This customer loyalty is generated via two departments, one focusing on the Group's mass market customer base and the other concentrating on VIP customers. The CRM team continuously seeks to innovate the range of promotions, bonuses and communication channels, whilst segmentation methods ensure that the relevant message reaches the right customer at the most opportune time. An excellent example of this approach is the 888 customer magazine "Eight" delivered to customers in the UK. This magazine is a tool seeking to, reinforce loyalty and, ultimately, spend ratios.

The VIP department ensures that the Group builds a real one-on-one personal relationship with VIPs so that 888 remains their online gaming provider of choice. This approach has ensured a very successful 2007 in terms of customer lifespan and their playing revenues with the Group.

These customer relationships have been strengthened by the Group's commitment to localisation.

In 2008, with the introduction of additional core products, together with sophisticated new communication and loyalty tools, the CRM team will be able to even better segment and communicate with its customer base to ensure effective cross-selling and up-selling of the Group's enhanced portfolio of products.

### *Strategic Alliances*

2007 was the year in which the Group became a 'white label' provider. Under the "Powered by 888" endorsement, the Group launched a new line of business as a service provider to third parties with their particular skill sets and target audiences. 888 initially entered into three partnerships:

*Rileys Poker*: Rileys, famous for their chain of snooker halls, sought to refocus their business behind in-hall Poker tournaments. 888 created a distinctive proposition for the Poker community enjoying a unique environment integrating both the online and offline version of Rileys Poker. This partnership was acknowledged by the industry when 888 received the 2007 "Land-Links Partnership of the Year" Award at the eGaming Awards.

*Tower Torneos*: Tower Torneos ("TT"), are already an established Casino operator in Latin America with an online Poker room. 888 worked with TT to provide an improved online offering, and successfully transferred TT's existing customers to the new gaming client "Powered by 888". This created an immediate and strong foothold in the Latin America region for the Group, generated significant liquidity for the Poker platform and opened new marketing channels in the region previously unavailable to the Group.

*LuckyAce*: LuckyAce is led by a team of gaming industry veterans with a track record of customer recruitment and traffic generation. LuckyAcePoker and LuckyAceCasino brands are a powerful combination of 888's added value platform with the LuckyAce online marketing expertise. LuckyAce is focusing on rapidly growing European markets, and will operate in parallel to 888's own brands, boosting market share in these high potential territories.

The new strategic alliances part of 888's business received a significant boost with the acquisition of the Bingo business, positioning the Group right at the forefront of Bingo service providers.

While 2007 focused mainly on Poker partnerships; in 2008, 888 will focus on providing an integrated product offering to business partners, encompassing Poker, Casino, Bingo and Sportsbetting. 888 intends to launch several new integrated Poker and Casino partnerships throughout the year.

In addition to these priority areas, other marketing channels have continued to drive acquisition and retention:

## *Online*

The online marketing department has undergone significant developments in the past year, recruiting a large portion of the company's new customers through its multi-department expertise. This department implemented an array of online branding and direct-response advertising campaigns targeting a wide range of customer segments. The department also experimented at the leading edge of online marketing, running campaigns using viral marketing, user-generated video content and several other web 2.0 trends. There was considerable growth in relationships with technology providers, advertising networks and publishers, which contributed to increased performance in new and existing online campaigns.

## *Sales*

The affiliates department achieved considerable growth in 2007, led by a drive to register new affiliates to the Group's programme. There was a focus on customised sponsorship promotions with new and existing affiliate partners and this contributed significantly to increased commitment and investment from these partners.

During Quarter 4, there was a drive to emphasise the role of offline activation activities for Poker. These new offline marketing techniques and promotions attracted many new customers, and the Group will continue to invest in a multitude of new marketing channels in 2008.

## *Search and Web Optimization Technologies ("SWOT")*

SWOT is much more than traditional simple search engine optimisation ("SEO"). 2007 was a strong year for SWOT, where acquisition of new customers via search engine traffic increased significantly across the whole business and especially in the UK.

2008 will bring new customer acquisition opportunities with the introduction of the "888sport" Sportsbook and the "888ladies" Bingo brands, and there are a number of web 2.0 plans in various regions.

## *Offline*

2007 was another successful year for the Group's offline marketing around the world:

888 launched a number of campaigns in Latin America, including shirt sponsorship of Club Nacional in Uruguay, TV poker programming across the region behind the 888 and Tower Torneos brands, as well as tournaments supported by a series of magazine and national press advertising.

In Australia, 888 launched the 888Poker brand offline through a heavyweight outdoor campaign, in Sydney, on the bus and train networks, supported with national press and magazine activities.

Across Europe, 888 had another year of major success with the shirt sponsorship of Sevilla FC. Sevilla won the UEFA Cup for the second consecutive year, the Spanish Cup (Copa del Rey) and finished third in the Spanish premier league (La Liga).

In the UK, the coming into force of the Gambling Act 2005 opened the way for the Group to launch television advertising. 888 retained London's leading creative agency, CHI & Partners, to deliver a UK based branding campaign across all marketing channels behind the new positioning "*Enjoy the game*".

The Group's ongoing sponsorship of the World Snooker Championship in Sheffield generated over 140 hours of television coverage on the BBC and Eurosport, and was rebroadcast globally.

888 also generated over 80 hours of its own Poker content in 2007 which is syndicated globally. In addition to existing content of the UK Poker Open, the Poker Nations Cup and the Women's Poker Tour, 2007 saw the Group becoming the presenting sponsor of the World Heads Up Championships held in Barcelona.

2008 will prove to be an even bigger year for the Group as 888 continues to build upon its brand having launched its Sportsbook, 888sport, and its new Bingo offering, 888ladies. In addition, 888 will run the biggest ever non-US facing online Poker event of its kind, branded the World Poker Crown, with a \$3 million guaranteed prize pool.

## Offering and R&D

### Casino

888's major Casino brand, Casino on Net, has consistently been ranked as the leading online Casino brand in the world. It continues to generate substantial business, and despite the recent introduction of 888's Emerging Offerings, still represented more than 55% of the Group's NGR in 2007 (2006: 57%) with NGR growth of 33% over the year, and, significantly, with 60% growth between Quarter 4 2007 (US\$35.3 million) and Quarter 4 of 2006 (US\$22.1 million).

During 2007, 888's tenth anniversary year, the Group focused on retaining a contemporary feel to the Casino, adding more games, and increasing the level of localisation while maintaining its core propositions of trust and simplicity combined with its first class customer service. Listening to its customers, 888 has enhanced the customer experience by providing faster game play, and by giving the customer greater choice over bet size. 888 also continued to expand its Casino offering: it introduced a new gaming "ecosystem" which enables third party game developers to integrate their products seamlessly into 888's gaming environment, provided Casino software to white labels and introduced a live dealer Casino tailored for certain Asian markets.

The combination of trendy entertainment content consumed by customers worldwide together with a unique gaming experience is a key factor to 888's success, as it has increasingly become the entertainment destination of choice for more customers. To this end, 888 added four new and unique Video Slots to increase game variety, with the majority available in each of the 14 languages (including voice localisation) which 888 supports. 888 released its "Rough Rugby" Slot to coincide with the Rugby World Cup and, in October 2007, released the "Blond Legend" Video Slot. This Video Slot, featuring "Marilyn Monroe" pictures, provided by the "Sam Shaw Collection", has proven very popular among customers. 888 aims to identify further themed content for Casino games. Both games ranked amongst the 3 most popular Video Slots in 888's Casino immediately upon their launch, and made themed Video Slots one of the most significant acquisition and retention tools 888 has. Following this success, 888 is planning to maintain its front-line position through internal development programs, as well as acquiring or licensing third party games to be integrated directly into 888's gaming environment.

2007 saw 888 move product localisation to the next level by enabling the establishment of partnerships with local providers. These partnerships are possible as 888 has successfully opened its platform to third party games, by providing an "integration platform" layer. This "integration platform" enables the swift integration of third party games, and will be used to add additional, new and localised games, adapted to 888's own high standards, to its Casino offering during 2008. This will provide its customers with a large variety of quality entertainment, and will contribute to customer acquisition by appealing to expanded demographics. Customer retention will be further re-inforced by the excitement and the choice of an ever expanding proposition.

The Group's latest partnership was entered into with Entertasia, one of the leading providers of gaming solutions for the Asian market. Through this partnership, 888 has launched in January 2008 a Live Dealer Casino offering Baccarat, Asian Roulette and Sic Bo. These games are an entry level requirement to compete in the Asian market and will be a key tool for growing 888's presence in this region. 888 continues to seek such partnerships and to integrate other localised games to further target the Asian market.

Once again, 888's Casino has maintained its position as the number 1 online Casino. The Group was proud to receive the prestigious "Casino Operator of the Year" award at the eGaming awards, in addition to the "Casino of the Year" at the Gambling Online Awards 2007.

### Casino KPIs

Year	2006*				2007			
	1	2	3	4	1	2	3	4
NGR (US\$'000)	21,496	22,531	22,646	22,088	25,952	27,900	28,992	35,276
Active Customers	54,053	48,425	46,444	41,307	70,769	72,362	72,847	73,737
NGR per Active Customer (US\$)	398	465	488	535	367	386	398	478

\* NGR figures rounded.

As can be seen from the previous table, the Casino experienced 60% NGR growth from Quarter 4 of 2006 to Quarter 4 of 2007. The inclusion of Casino games in the Poker client at the end of 2006 greatly increased the customer base and thus the number of quarterly active customers. This resulted in a 4.2% growth in quarterly active customers between Quarter 1 and Quarter 4 of 2007. The increased number of active customers resulted in substantially higher growth in NGR in 2007, particularly in Quarter 4 where

NGR increased 22% to \$35.3 million. As a result of the sharp increase in active customer base in Quarter 1 2007, NGR per active customer decreased, but has been steadily increasing since, and in Quarter 4 2007, reached \$478 per active customer.

During 2008, the Group aims to use its strong technological, CRM, data mining and optimisation capabilities to provide its customers with an even more intimate experience tailored to their preferences and playing habits.

While, today, 888's offering is already fully localised, in 2008, the Group intends to extend this initiative. It will introduce further localised versions of its popular games together with local games played in specific target markets. It will also adapt its traditional Casino games to the local preferences as best observed today in terrestrial Casinos. Asian and Latin American customers will continue to be at the core of 888's focus.

Leveraging its multi-million dollar marketing budget and the strongest global brand in online gaming, in 2008, 888 will launch [www.888debut.com](http://www.888debut.com), a platform for third party game developers to debut themselves in the online gaming world and to make their product available on the stage of the world's largest online gaming entertainment destination. 888's first integration with a third party provider is in its final stages, and the first batch of games is aimed to be released during the first half of 2008.

In order to complete the excitement and competitive environment which 888's customers seek, and to broaden its offering with additional gaming models, the Group also plans to introduce Casino races and tournaments. The Group sees these events as additional marketing methods for enticing new customers, and as a tool for retaining existing ones. With its expertise in tournament management, 888 expects these events to form key part of its gaming environment.

### *Poker*

Poker operations also enjoyed strong growth in 2007, with NGR increasing by 18% to US\$80.8 million (2006: US\$68.2 million) contributing 38% (2006: 43%) of the Group's NGR. This growth has been achieved by combining the commitment to its large legacy customer base with the introduction of new software features; increasing the variety of tables and through the enrichment of 888's existing tournaments.

During the year, 888 has demonstrated an ever increasing global reach. The Group has achieved further penetration in territories such as Latin America and Asia Pacific, and is operating a truly global 24/7 Poker room, in which customers can find their game of choice at the time of their choice.

888 has moved a step forward in addressing the increased retention requirements of its existing customers by integrating its Casino games into the Poker client. The success of Casino in Poker led to the integration of Backgammon and Bingo in Poker in 2007, with Sportsbook in Poker integration planned for 2008. This integration strategy is the achievement of the Group's stated goal of delivering a unified offering and adding new revenue streams to existing ones, and by capitalising on the synergies between 888's offerings.

Through 2007 and into 2008, the Group has enriched its user experience. In 2007, 888 added 3D tables with avatars alongside its 2D classic view tables. While the 2D addresses the needs of high stake and multiple table Poker customers, the newly designed 3D tables with avatars have been very popular, and became the table of choice for the majority of customers. Continuing this effort, 888 is committed to developing features such as its newly introduced "chat call-outs", which allow customers to get closer to a "live-like" user experience.

In addition, In 2007 888 integrated Backgammon into its unified Poker client, in order to enhance customer retention. In 2008, 888 plans to increase its Backgammon liquidity, by further localising the game by targeting new customer segments. 888 also plans to integrate other local peer to peer games in different regions, to make its gaming environment a one stop shop, which includes globally popular games as well as locally popular ones.

2007 has also marked 888's evolution to become a new "Poker Network" providing a full, end to end solution for "white label" Poker operators, making 888 itself a "Poker Network Operator". As a Poker Network Operator, 888 stands out by offering a complete solution, in which existing operators can leverage their customer base and new operators can grow from scratch using the shared liquidity offered by 888's network and the robust back office operation that the Group provides.

### Poker KPIs

Year	2006*				2007			
Quarter	1	2	3	4	1	2	3	4
<b>NGR (US\$'000)</b>	17,857	16,322	15,686	18,374	20,918	19,890	18,590	21,419
<b>Active Customers</b>	134,710	122,087	132,995	147,805	168,066	166,772	168,105	170,401
<b>NGR per Active Customer (US\$)</b>	133	134	118	124	124	119	111	126

\* NGR figures rounded.

As can be seen from the previous table, 888's Poker NGR grew by 18% in 2007. During the year, the historical seasonal pattern of a slower Quarter 2 and Quarter 3 was repeated with a stronger Quarter 4. This continuous growth in NGR in 2007 is particularly impressive given that the additional revenue derived from Poker customers playing Casino games is included in Casino NGR. Active customers increased during the year, showing 15% increase between Quarter 4 2006 to Quarter 4 2007. Finally, quarterly NGR per active customer remained relatively constant.

In order to drive further growth in 2008, 888 is currently working to improve the conversion of its play for free "Demo" customers to real money customers by including the demo mode play option within the real money environment. The year has started with the keynote announcement of the "World Poker Crown", a sequence of branded events, which will culminate with a \$3 million guaranteed prize pool, offline tournament. To date, this is the largest single event of its kind offered to the non-US market. This \$3 million event is the tournament final and daily and weekly satellite tournaments are run, customised to match 888's geographic customer base profiles in terms of game level, risk profile and financial capability. This activity will ultimately provide 10 qualifiers for the final.

The Group plans to introduce more features designed to maintain customers' engagement and commitment throughout the year. Such features include the addition of advanced community and communication tools, which 888 has already started to roll out. In 2008, 888 will also introduce the broadcasting of relevant global and localised TV content, generated both by itself and by its users. Such content will be made available through 888's various marketing channels and on its website, through a planned advanced Video Portal. These enhancements will further strengthen the performance and reach of 888's Poker room.

### Combined Casino and Poker KPIs

With the gradual migration of the Group's customers onto the unified offering, the distinction between Casino and Poker revenue becomes more and more difficult. As a result, the Group reports its KPIs for the combined Casino and Poker activity in the table below.

Year	2006*				2007			
Quarter	1	2	3	4	1	2	3	4
<b>NGR (US\$'000)</b>	39,353	38,853	38,332	40,463	46,870	47,790	47,582	56,695
<b>Active Customers</b>	188,763	170,512	179,439	189,112	205,907	208,876	209,811	209,918
<b>NGR per Active Customer (US\$)</b>	208	228	214	214	228	229	227	270

\* NGR figures rounded.

As can be seen from the previous table, the combined Casino and Poker KPIs reveal strong NGR growth in 2007 compared to 2006, growth which accelerated during the Quarter 4. This, in part, can be attributed to increased active customer numbers that have grown in each quarter since the FIFA World Cup in the summer of 2006, as well as migration into higher edge games. The growth in both factors has resulted in a stable NGR per active customer for the first three quarters, followed by a significant increase to \$270 per quarter (2006: \$214) in Quarter 4 2007, which benefited from the substantial NGR growth.

### Bingo

2007 heralded 888's entry into the online Bingo market with, in May 2007, the successful Bingo acquisition. The acquired Bingo business constitutes the provision of software, customer support and payment processing to some of the premium Bingo partners in the UK, such as:

[www.foxybingo.com](http://www.foxybingo.com),  
[www.mirrorbingo.com](http://www.mirrorbingo.com),  
[www.thinkbingo.com](http://www.thinkbingo.com),  
[www.bingoscotland.com](http://www.bingoscotland.com),

[www.thinkbingoplus.com](http://www.thinkbingoplus.com)

In addition to the Bingo business, 888 now operates a white label Bingo network which has some 50 white labels, including [BingoBallroom](#) and PoshBingo.

2007 continued to see growth in online Bingo with a number of new networks and white label sites entering the market, in which 888 Bingo has continued to be a dominant customer.

In parallel to increasing the number of 90-ball and 75-ball Bingo rooms, the Group continued to strengthen the community feel of its offering, and achieved significant customer satisfaction and retention levels. The community feeling in 888's Bingo rooms is a combination of its friendly, welcoming team of moderators who follow customers throughout their stay within 888's Bingo rooms, and its rewarding website that includes a variety of interaction, chat tools and venues. An example of such features is the *Ladies Lounge* where 888's customers can find birthday bulletins, the Bingo glossary, Bingo calls and loyalty point offers. Loyalty to 888ladies and to the Bingo venues powered by 888, whether one of 888's premium partners or one of its white label partners, is proof of the pervasiveness of community characteristics of an online Bingo and further evidence of the appropriateness of 888's stated strategy to continuously invest in expanding the scope of community services and tools in its Bingo offering.

888's Bingo virtual venues are places that people feel excited to enter into. Its view on promotions to customers is simply: to constantly give customers a reason to return. The excitement in 888's Bingo rooms in 2007 took the forms of monthly guaranteed jackpots, special event jackpots, weekly and bi-weekly indulging events such as shopping sprees and giveaway of daily prizes that were part of the games themselves. The other side of excitement is providing customers with welcome "surprises". For this purpose, the Group worked closely with its game and content providers, and together tailored its gaming so that they do not only expand its offering but also excite and surprise. This included a variety of scratch card games, fixed odds games and branded games.

2008 has seen the launch of the new 888 Bingo network: [www.888ladies.com](http://www.888ladies.com). The site is positioned to appeal to a whole new market for the Group and will provide women a place where they can enjoy Bingo games, with chat, community features and indulgent prizes.

In addition to 888ladies, 888's latest licensee has released their Bingo network [www.winkbingo.com](http://www.winkbingo.com) in Quarter 1, 2008, which is further evidence of the Group's desire to grow its business by partnering with more licensees.

Currently with predominately English language customers, the Group plans to expand into the Spanish market in 2008. This market is increasingly a major market for online Bingo, and discussions are already underway with a number of potential licensees. 888 plans to introduce its Bingo offering in two additional localised versions of the game for identified high growth markets.

In order to crystallise its position as a leading entertainment and content destination for women, the Group is planning to scale up its editorial capabilities. This will turn 888's gaming offering into a more contextual experience that links between what people read, consume and win on 888 website; ranging from linking personalised online horoscope, bonuses and invitations to play on birthdays and lucky days, to games themed after the brands 888's customers care the most about, whether their favourite TV show or celebrity.

Communities are comprised of customers and the community operator. In 2008, 888 plans to strengthen the ties between the two by taking its community tools to the next level, through 888's own community platform. This platform is the culmination of the vast experience obtained by 888's customer retention teams through chat, interaction with customers and observing their behaviour, combined with the latest technology developments, including RSS feeds and web 2.0 widgets. 888's community platform will centralise contemporary content editing, information distribution, sharing spaces and personalisation tools. The Group believes that this platform will have a positive effect on its business and ability to cross-sell new offers to its customers.

#### *Italian Sportsbook*

In December 2006, the Group was awarded one of the online sports betting licenses issued by the Italian Government. This license grants the right to offer online betting facilities to the Italian market in conjunction with a local partner. This license became operational and the business commenced trading with a soft launch in late 2007.

## *Sports Betting*

In early 2008, 888 unveiled its new international sports betting service to compliment its existing product suite. "888sport" is a fully functioning portal allowing customers to place bets in various currencies via a number of language specific web sites.

"888sport" offers a full range of Sport betting services, including; UK, European and International football, horse and greyhound races from around the world and a whole host of other sporting events such as tennis, rugby, motor racing, golf and other popular sports, targeting both international and local markets. "888sport" also features an 'in play' betting service allowing customers to place bets on live events as they are taking place, in some cases right up to the final whistle.

The Group's route into this challenging marketplace has been to develop its product in conjunction with Blue Square, one of the most popular and well established sportsbooks in the UK. Based in London, Blue Square was launched in May 1999, and as well as providing internet based sports betting opportunities, also offers its services through other channels including Interactive TV, WAP and Telephone Betting. In 2003, Blue Square was acquired by the Rank Group, who are a major force in land-based gambling, with Casinos and Bingo clubs across the UK and Europe.

As a result of the partnership with Blue Square, 888 benefits from Blue Square's experience in trading and risk management to reduce the inherent risks associated with this business. Instead, 888 can concentrate on marketing to new customers using its sport related sponsorships, such as Sevilla football club and the 888 World Snooker Championship, and cross-selling its other products to these new customers.

The launch of 888's sportsbook in March 2008 was an important milestone for the Group. The UK version of the sportsbook immediately featured the popular Cheltenham Festival and Champions League knockout stages, whilst April sees the climax of the UK domestic football season, the Grand National, the 888 World Snooker Championships and the U.S. Masters golf from Augusta. In addition to the UK, 888sport will be launching versions of the sportsbook simultaneously in Spain, Germany, Austria, Sweden and Denmark and will be featuring prime sporting events action from these countries. Additional territories will be added throughout the year in Europe, Asia and South America, each with its own local sporting events coverage. The Group sees significant opportunities with sports betting markets such as Spain being largely untapped.

The complementary skills and work cultures of the 888 and Blue Square teams make 888 confident of completing a global rollout by the end of 2008. The international launch reinforces 888's strategy of creating a large community of people consuming entertainment content online.

## *New Platforms*

In 2007, 888 has become an interactive entertainment destination with "real estate" expanding beyond the www.888.com website, spanning mobile phones through hotel-room entertainment into in-flight systems. As part of its unified offering, 888 allows interactive gaming on each of these new platforms with the same customer account, password and, where allowed, wallet which its customers use online.

The roll-out of 888's gaming offerings onto these platforms has enabled its customers to play anytime, anywhere on 888's global network, experiencing the same branded user experience historically enjoyed only online.

The purpose of developing these new platforms is two-fold: firstly, to improve retention of existing customers by giving them more ways to interact with 888 and, secondly, to acquire new customers by offering 888's products to audiences that consume entertainment whilst travelling (airplanes, hotels) or on their personal communication tool (mobile phone).

For the platform developer and owner, 888's wide game variety and strong brand enables them to broaden the content they offer to their users by incorporating 888's offering to their customers, thereby increasing their own revenues and share of customers' time.

During the year, 888 entered into a partnership agreement with one of the world's leading in-room hospitality system providers. This agreement allowed 888 to develop its first online Casino product, specially designed for internet enabled hotel room televisions, with its own branded look and feel. In addition, as part of this partnership, all Wi-Fi access in the hotels that install this system will feature free access to the www.888.com site for guests using laptops in the hotel's network. 888 plans to extend its first trial in the UK in 2008, with the plan to launch this service throughout Europe during the remainder of the year.

A further deal entered into by 888 in 2007 was with DTI, an in-flight entertainment industry leader. This agreement enables 888 to offer its Casino on in-flight entertainment systems used by major international airlines. 888 will be in a position to offer its gaming services on long-haul flights using DTI's in-seat entertainment systems as soon as the technology is in place for in-flight internet connectivity and the necessary regulatory approvals are obtained. The product is currently in the final stages of development, and the plan is to finalise installation on the first airplane in late 2008.

888mobile plans to tap into the huge mobile phone market, by using existing customer registration details on Mobile Phone Casino which includes Blackjack, Roulette and Video Slots. The mobile potential is considerable given that in excess of one billion mobile phones will be sold worldwide in 2008, compared to 200 million personal computers. An increasing number of these mobile phones have bigger screens, faster processors, availability and portability which lend themselves to a great gaming experience. This offering, developed in cooperation with UK-based Collectivity and M-Fuse, is available on over 250 models sold in some 200 countries, and will be distributed through 3, T-mobile, Orange UK and other mobile portals.

In 2008, 888 intends to focus on Cable TV and IPTV. This untapped platform is expected to become an acquisition channel as well as a platform to increase customer value. 888 is currently in discussions with several partners and is evaluating the best route to penetrate this market.

#### *Payments and Risk Management*

E-payments, Fraud and Risk Management Department ("e-payments") had a significant role in supporting several strategic growth initiatives undertaken by 888 in 2007.

In 2007, customers were offered 23 different deposit and 10 different withdrawal methods. Credit cards and debit cards were the most popular international payment method, representing 86.5% of total deposits in 2007 (2006: 86.7%), with each region having its own distribution of preferred local methods.

When customers enter [www.888.com](http://www.888.com) they are offered a range of payment options tailored to suit their local market based on their physical location, from which they can choose their preferred payment method. The availability of payment methods is a key element to a localised offering, enabling customers to play their local entertaining game conveniently through their local preferred payment method. By an analysis of geographical data and with the assistance of local knowledge, new payment methods are identified, carefully evaluated and assessed and, where suitable, implemented.

Deposits and withdrawals are carefully monitored by 888's in-house Fraud and Payment Risk Management department. This department has a wealth of experience in fraud prevention from years of operation and has integrated their internally developed prevention and verification procedures with commercially available third party measures to enable robust verification.

By constantly reviewing and analysing the performance of the payments process, the system is optimised to maximize deposit levels, approval rates, control fraud activity and minimise payment processing costs.

In Quarter 3 2007, 888 launched its state of the art payments processing system; an in-house developed new financial backbone system with both back office functionality and user side cashier interface. The new system provides a major upgrade in processing capability and flexibility, providing better customer service combined with an improved internal mechanism. This system increases ease of use for customers, significantly speeds up the integration of new payment methods and automates various back office procedures for greater efficiency and cost saving. Currently in trial, the Group intends to release the system to all its existing and new customers in 2008.

Expanding 888's global business requires tailored treatment for payment and withdrawal methods. The Group's e-payments business development and account management teams constantly analyze customer deposit and withdrawal habits in each country, and ensure customers are presented with their preferred methods as the primary selections in the cashier and withdrawal module. In 2007, 888's customers were offered the option to deposit in their local currency, even when the games themselves were played in US dollars. At the beginning of 2008, Sports multi-currency was introduced in US Dollars, Euros, Pound Sterling, Danish Krone and Swedish Krona, to further align the Group's cashier and games with customer needs and payment preferences. Localisation and multi-currency support in Asia, Europe and Latin America, will be the Group's focus in 2008 as well as the integration of new local payment and withdrawal options into the cashier.

## Customer Service

The Group remains committed to being market leader in the global online gaming industry, as measured by customer satisfaction. The Group's dedicated teams of trained in-house customer support representatives provide the highest levels of service and support for each of the Group's brands and white labels.

In 2007, the Group continued to invest in the support infrastructure, and expanded its language portfolio, including expanding its existing English Live Chat service to cover three new languages. The Group offers first class customer support via email and telephone, 24 hours a day, seven days a week, to customers around the world in up to 13 different languages.

The ongoing relationship and dialogue with customers is maintained by Customer Relationship Management teams in two dedicated contact centres, located in Gibraltar and Antigua. The main Gibraltar contact centre focuses on providing support to the Group's principal markets of Europe, Asia/Pacific and Latin America, with the Antiguan contact centre focused on supporting the Group's main English speaking markets in Europe, Australia, Asia Pacific and Canada. The contact centres in Gibraltar and Antigua played a vital role in the successful launch of the Group's first strategic partnerships; with Rileys in the UK and Tower Torneos in Latin America.

Operating a dual contact centre system is a cost effective way of managing the overflow of phone calls, chats and emails and allows efficient balancing of operational demands. The Group is therefore able to maintain the same high level of service throughout the day. In addition, the centres complement each other in a number of respects:

- Staff schedules are created jointly, taking into consideration business trends from previous years and/or anticipated promotional campaigns in a particular location
- Follow up on customer issues can be completed from either location, from a shared database, in 888's integrated back office system.

Representatives in each location are cross-trained to provide service for each of the Groups brands. Their aim is to resolve customers' issues during the first contact.

The following performance levels were attained in 2007:

### Casino in English

- 94% of all phone calls are answered within 21 seconds
- 95% of all emails are replied to within 12 hours
- 91% of all chat contacts are answered within 28 seconds

### Poker in English

- 96% of all calls are answered within 21 seconds
- 97% of all e-mails are replied to within 12 hours
- 91% of all chats are answered within 32 seconds

In addition, expert teams in both locations initiate outbound interaction with new and existing customers experiencing deposit issues. Selected customers are also contacted about special offers and new products, and to reactivate those that have become inactive. The launch and upgrade to the new 3D Poker software and various new Casino games launched in all 13 supported languages provided the Group's customer support representatives with further opportunities for cross-selling.

### *VIP service*

The service level provided to individual customers is differentiated with the Group's best customers receiving more personalised service. This allows the Group to offer its customers tailor-made incentives to suit their profile and maximise their lifetime values. A separate, highly skilled team is dedicated to providing a high level of proactive customer service and hospitality to the Group's most valued Casino customers.

The VIP department adopts a thorough approach to following up on sensitive and complex cases. Every VIP customer is provided with a Personal Account Manager who strives to create a personal relationship with his customers in order to offer the ultimate in personal service, determine customer's interests and reward individual customers with gifts tailored to suit their personal tastes.

The VIP team organises targeted, worldwide hospitality events to reward VIPs in a tangible manner. Events range from horse racing, football and other sporting events, to weekend breaks, sold-out concerts and social gatherings, which also give customers the opportunity to meet their Account Managers face-to-face.

The VIP hospitality programme significantly enhances customer loyalty and individual lifetime value. In 2008, the VIP department is set to expand into providing their hospitality programme to each of the Group's brands and White Labels.

### *Customer Satisfaction*

888 continuously monitors customer satisfaction by requesting and analyzing real-time feedback, and in 2007, conducted a comprehensive survey to benchmark the Group's service level in its primary markets. Compared to previous studies, the results show a significant overall increase in customer satisfaction.

Respondents attributed the highest rating to the level of professionalism of customer support representatives, achieving ratings of 4.27 and 4.15 out of a maximum of 5 for Casino and Poker respectively. Additional rating include:

- English Casino customers rated their satisfaction with the quality of service at 4.11
- English Poker customers rated their satisfaction with the quality of service at 4.01
- Overall satisfaction of customers from various other countries and languages is similar
- Response time ratings were 4.29 and 4.16 for Casino and Poker respectively.

A vital component in maintaining and exceeding customer expectations is the ability to access each customer's full and complete history in real time, optimising customer interactions at all levels. The Group's advanced proprietary back office application functions as the backbone for the Group's entire Business Operation. Data from various divisions is integrated and streamlined into a single point of reference, and provides representatives from every department - Customer Support, VIP, Risk Management, Business Production and Finance - the tools to provide superior assistance to customers regardless of the department the query is directed to.

Customer contacts are strictly monitored to ensure quality and parity. The Group have retained leading contact centre experts to further enhance the quality of its customer support, and representatives benefit from ongoing refresher training courses, including responsible gaming training.

### *Reporting and Data Mining*

The Group has developed outstanding reporting and data mining tools that assist in identifying and predicting customer behaviour, based on data collected since the Group was founded in 1997.

Sophisticated customer tracking technology gives the Group the ability to extract and analyze relevant information that enables it to better target its offering and marketing activities to customers around the world.

Customers also benefit from the Group's ability to generate tailored statistical and contact category reports, which identify trends, habits and expectations of customers in real time highlighting bottlenecks and possible training needs at an early stage.

### **Responsible Gaming**

*"Because we care, responsible gaming means investing time, energy and resources in the people we interact with daily – our employees, our customers and our community!"*

The Group's aim is to raise awareness to responsible gaming through education and research programmes and to provide staff with the right tools to ensure a responsible gaming environment.

The Group is constantly implementing new ways to create a caring, ethical gaming environment and to ensure customers are safe. Responsible gaming is a key feature in the Group's business strategy, reflecting the importance it feels towards this issue. In acknowledging the risks that the Group's games can pose for a small minority of people, the Group strives to achieve excellence in its responsible gaming policy and ethical conduct.

The Group's Director of CSR & Responsible Gaming has wide-ranging responsibilities that include responsible gaming, fair gaming, outreach programmes with local charities and donations.

### *Training*

888 believes that responsible gaming begins from within. The Group has therefore developed a cross-Group global training programme in which all Group employees have participated throughout the past year.

The Group's responsible training programme includes every department in the Group. The training has been tailor-made for each department so that responsible gaming awareness occurs from the first stage of each and every activity within the Group, including the game development.

### *Protecting customers*

Gamcare, one of the leading authorities on the provision of information, advice and practical help in addressing the social impact of gambling, has recognised www.888.com's dedication to responsible gaming and customer protection and has awarded the Group its certificate this year.

After undergoing an audit covering staff training, underage verification, self deposit limits, self exclusion, referral processes to relevant agencies and related issues, the Group was commended for maintaining excellent standards of practice.

As a responsible, regulated gaming group, 888 also complies with all guidelines published by eCOGRA, a non-profit, independent, regulatory body based in the UK. By examination of procedures and controls eCOGRA ensures that approved operators are properly and transparently monitored to provide customer protection.

www.888.com also adheres to the stringent rules concerning underage gambling established by the Interactive Gaming Council of which it is a member.

### *Preventative measures*

Keeping in mind its motto "responsible gaming means investing in the people we care about", Group staff are trained to respect customer privacy. Should a problem arise, 888 aims to work together with customers towards the best and most comfortable solution for them.

The Group has established several measures designed to help prevent gambling from becoming a problem.

Personal limits are in place across all Group brands, and are voluntarily available to all members using the new payment system planned to be fully integrated this year. If, at any stage, a customer becomes concerned about their play behaviour, they can request to be self-excluded for a chosen period. During this period, 888 will block the account. Any new accounts the customer might attempt to open during the exclusion period will also be blocked as soon as detected. In addition, the Group will take all reasonable measures to make sure the customer will not receive any promotional material during the designated time. All customers who reactivate their account following a self-exclusion period are given the opportunity to set their own limits.

The Group has also added the "Gambling Therapy" button on its website to provide its customers with information and support for those who feel their gambling is a matter of concern. Gambling Therapy provides online support to anyone affected by problem gambling.

### *Protecting minors*

In accordance with its responsible gambling policy, the Group does not knowingly allow anyone under the age of 18 to play its games and none of its promotions are targeted at minors.

Together with Gamcare, the Group trains call centre staff to identify and deal with anyone who might be underage. The Group has trained staff to be most sensitive to the possibility of underage gambling; whenever an account is suspected of belonging to an underage customer, it is suspended until a full investigation has been carried out. In order to protect minors, verification systems are used, where applicable, to verify and identify the age and identity of the customer.

### *Raising awareness*

During 2007, the Group launched a new website dedicated exclusively to responsible gaming called 888responsible.com (<http://www.888responsible.com/>). 888responsible.com offers comprehensive and easily accessible information about responsible gaming practices, dealing with problem gambling, preventing underage gambling, charity activities and more.

The new website provides tools with which to address online gaming. Parents can learn how to identify the signs indicating that their children might have a problem related to gambling, while customers can take the self-assessment test to determine their gambling habits, learn how to keep out of debt and even how to exclude themselves from playing at online Casinos.

### *Education*

During 2007, 888 joined the RIGT (Responsibility in Gambling Trust) and donated to their new educational programme. The aim of the programme is to help young people understand the risk of problem gambling and to show them how they can reduce harm to themselves and their friends by developing skills, attitudes and knowledge.

### **Corporate social responsibility policy**

#### *Working with the community*

As a global Group, 888 aims to reach out to its communities worldwide and to work with them for a better future.

On 10 October, 2007, in celebration of its tenth birthday, the Group held its first Charity Day in collaboration with two global charities. The Charity Day focused on fundraising campaigns to support humanitarian and environmental projects worldwide.

The day involved all aspects of the Group, from Group employees who volunteered their time at local charities, to customers, whose losses during the day, playing Casino, Poker and Bingo, were earmarked for donation. At the end of the day a total of \$100,000 was raised and donated to two global charities: EarthAction and World for World.

During the day, the Group's employees also volunteered their time to their local regional charity – Macmillan Cancer Support in the UK, St. Martin's School in Gibraltar, The Adele School in Antigua and "Up for the Challenge" in Israel.

This day was only the start of what is expected to be a long lasting relationship between the Group, its employees and the various charities.

As part of its ongoing CSR initiatives in Spain through our Gibraltar site, the Group will sponsor a pair of Lynxes, which are new additions to the Castellar Zoo in Spain, for the next five years.

In March 2008, 888 received formal confirmation from FTSE4GOOD that all requirements had been met, and that the Group is now part of the index.

### *Environment*

As an on-line company, the Group has a low environmental impact. Nevertheless, the Group acknowledges that everyday actions may affect the environment with potentially adverse consequences. The Group's offline operations are primarily office based, and its main environmental impact stems from transportation and the use of paper, lighting, heating, air conditioning and IT. 888 has established a committee to deal with office paper use, waste, recycling and other relevant environmental issues. The committee, led by the Group's Director of Global Purchasing and Operations, is responsible for overseeing new procedures, their practical implementation within the Group, and the exploration of new ways to minimise environmental footprint.

This year a pilot project designed to use energy and resources as efficiently as possible was launched at the Group's offices in Israel. As the pilot was successful, both these actions will be implemented at all Group offices during the coming year.

As a global business, extensive employee travel is another environmental challenge with which the Group is faced. In order to minimise travel, the Group has invested in the latest multi-media technology and encourages employees to use teleconferencing facilities. For daily commuting, 888 provides its employees with bus transportation to minimize the use of private vehicles. The Group has also provided bicycle locking stations in the parking lots and other bicycle facilities in order to encourage employees to cycle to work. During 2008, the Group intends to finalise its carbon footprint and process an action plan that will reduce its carbon release.

#### *Life @ 888.com*

888 invests a great deal of time and resources ensuring that customers have access to a friendly and caring gaming environment, employees and suppliers enjoy an ethical and rewarding workplace, and the greater community as well as shareholders benefit from the Group's success. We follow a creed which serves as a guideline for global work life.

*Entertainment@888* - We believe that entertainment is what completes our lives. After the challenges and routine that occupy most of our time, everyone is entitled to some fun and excitement.

*Customers@888* - We believe that our first responsibility is to provide the best gaming experience to our customers. This means offering the most entertaining, innovative, exciting and rewarding opportunities to win, combined with unparalleled customer service that is available from any location at any given time. 888 is proud to develop and acquire new products to maintain its edge. We are always mindful of the complex regulatory environment in which it operates and the social responsibility that comes with the gaming industry. 888 understand that it must invest time and resources in caring for customers and protecting the vulnerable.

*Employees@888* - We are responsible for our employees who work with us worldwide. We must provide an enjoyable work environment where people are challenged and motivated to excel, where flair is rewarded, compensation is fair and the balance between work and family is respected. Individual development is encouraged and advancement is based solely on merit. We must always invest in developing our employees so that they can achieve their personal aspirations. All employees should expect their managers to be capable, knowledgeable and motivating. We must always treat our suppliers and other partners with respect, enabling them to make a fair profit. We will never expose our employees to risks and all employees should be comfortable that their actions are just and ethical.

*Responsibility@888* - We must use our financial success for the greater good. We are in a wonderful position to invest in the charities and organizations that are important to our employees and our customers. We must especially encourage and support the social responsibility that accompanies our work. We are committed to providing a fair and responsible gaming environment and to guiding our customers to play responsibly.

*Investors@888* - Our final responsibility is to our shareholders. We must strive to operate as efficiently as possible, achieving profitable excellence, ensuring that we treat their capital as if it were our own. We must take risks that allow step-changes in performance while always calculating the risk and measuring our results, retaining knowledge and learning from our experiences. By doing all of the above, we will increase shareholder value.

#### *Implementing our values*

We set high standards for ourselves, and we take pride in our ability to consistently maintain them. Following the belief that "it's in our nature" and after extensive internal workshops involving employees across the organization, we have outlined and implemented a set of comprehensive values that represent the way we operate:

**Excellence:** We consistently challenge ourselves to reach the highest performance level in everything we do.

**Innovation:** We dare to question our own "way of doing things", keeping an open mind, experimenting, and constantly creating new and surprising solutions.

**Caring:** At 888.com, we value every employee, colleague and customer. We show it by creating a nurturing environment of respect and sensitivity to the needs of others. We do not forget our commitment to provide a responsible gaming environment to all.

Customer centricity: Keeping our customers (both internal and external) at the centre of all decision-making processes, we strive to exceed customer expectations and provide the best customer experience.

Leading: We strive to remain one step ahead of the competition. This means we are constantly on our toes, thinking ahead and keeping a close eye on industry developments.

Collaboration: Our success depends on our ability to work as a single unit while sharing our knowledge, capabilities and opinions in an open, respectful and trusting environment.

These values underpin the Group's strategic goals, giving all employees a sense of identification and a defined way of behaving as well as ensuring alignment between the organization's business objectives and those of individual employees. These values serve us as our guidelines, and we strive to obtain a high level of integrity in the way we work, communicate and act.

#### *Professional development*

The Group recognises that investment in the professional development of its employee is a key factor in its ongoing success. This year, the Group developed a leadership programme which focused on providing managers with leading global managerial tools and solutions (e.g. Ken Blanchard and Myers Briggs) for leading and managing their employees successfully.

The leadership programme focused on coaching managers to adopt appropriate leadership styles to suit individuals in their team and to develop the behaviour required by managers to achieve excellent performance and team work.

Building on effective communications, motivation skills and concentrating on the relationship between manager and employee, the programme succeeded in enabling managers to analyze and resolve a variety of possible situations that they may experience and apply themselves in the most appropriate way. This embedded the Group's value of leadership in its daily operations.

#### *Training*

Ensuring that staff have all the skills and knowledge required to perform their job well and assisting them to develop the next generation of products and services is crucial to a growing business. The Group is dedicated to the professional development of its employees so that they can achieve their personal aspirations. Training is therefore part of [life@888.com](mailto:life@888.com).

Training initiatives are offered both internally and externally and include technical skills as well as soft skills training. In 2007, 80% of all Group employees participated in internal and/or external professional training seminars.

The training sections were divided into three levels; soft skill training, technological training and industry training. In each training section, the Group used professional trainers together with well designed materials.

This year, 888 has also initiated a "Train the Trainer" internal programme which focused on assisting expert employees to improve their presentational skills and their professionalism.

#### *Equal opportunity*

The Group believes in promoting equal opportunities through every aspect of the employment relationship and by providing a workplace that welcomes difference and enables employees to feel comfortable.

As 888 enjoys a cosmopolitan workforce from a large variety of nationalities all working side by side, the Group's diversity policy is explicit. The Group does not tolerate any form of harassment, including any uninvited, unwelcome behaviour which offends, humiliates or intimidates. 35% of the Group's worldwide management team is female.

At year end, the Group had 805 employees (2006: 736) at the following locations; Gibraltar 270, Israel 451, Antigua 68, London 16.

## **Regulation and General Regulatory Developments**

The regulatory framework of online gaming in different countries around the world remains as dynamic and rapidly evolving as ever. While some jurisdictions have moved to curtail the activities of online gaming sites, many others are currently contemplating liberalisation and regulation of the industry, and some have already taken this route. The Board notes that there are significant risks, unique to the online gaming industry, including from activity with customers in the USA prior to the Group's withdrawal from the market in October 2006, where customers of 888 generated 55% of its Net Gaming Revenue. The Board remains committed to monitoring closely and addressing regulatory changes as they occur, and to fostering, so far as possible, the trend towards liberalisation and regulation of online gaming throughout the world.

### **Gibraltar**

888 is licensed and regulated in Gibraltar.

### **Italy**

In Italy, 888 received a sports betting license, which allows it to offer sports betting services (supervised by the State Monopoly Authority). Following regulations issued by the Italian authorities in 2007, the license will allow 888 to offer skill games (including Poker tournaments), subject to receiving the proper authorizations from the Italian authorities.

### **EU**

The European Commission is challenging the online gambling and betting regulatory regimes of various European States, as the Commission holds that as regards EU licensed companies, these regimes might infringe the enshrined freedom to provide services, the freedom of establishment and the concept of mutual recognition. This effort is reflected in, inter alia, the infringement proceedings initiated against several EU States – Italy, Denmark, Finland, Germany, Hungary, the Netherlands, Sweden, France, Austria and Greece; should these Member States fail to supply adequate reasoning of their gambling legislation, the Commission may refer the issue with each Member State to the European Court of Justice. While these proceedings may, in the end, cause the European States to liberalize their gambling markets, it should be noted that it could be a very long time before resolutions or judgments are reached (if at all). In this light, in France, during March 2007, 888's non-executive director and former Chief Executive Officer, John Anderson, attended an interview with the French authorities. 888 is in consultation with its legal advisers with regard to this matter, and closely monitors the situation for any developments. Specifically as to France, the French Supreme Court annulled a French Court of Appeals judgment issued against Zeturf, an online gambling operator licensed in Malta, due to the fact that the Court of Appeals failed to examine whether the French gambling legislation is compatible with EU law. The Supreme Court ordered the Court of Appeals to re-examine the issue according to EU law, and also to consider whether the social goals which justify the gambling monopoly are not fulfilled by the Maltese gambling legislation.

In addition to these infringement proceedings, the EU Commission is involved in other instances in which the online gambling and betting regulatory regimes appear to contravene rights and freedoms of online gambling and betting operators (e.g., issuing detailed opinions against the enactment of prohibitive legislation, and intervening in the WTO process described above).

On 6 March 2007, the European Court of Justice issued its judgment in the Placanica case, which focuses on the compatibility of the Italian gambling legislation with EU law. The Court ruled, inter alia, that insofar as the prohibition to offer gambling services which is set within a Member State's legislation is found to be incompatible with EU law, such Member State may not apply criminal sanctions to an activity which contravenes this prohibition. The Court found this to be the case there, as a specific prohibition contained in the Italian gambling legislation which was reviewed by the Court was found to contravene EU law. Therefore, the Court ruled that Italy cannot apply criminal sanctions for breaching this prohibition.

### **USA/WTO**

In the USA, UIGEA added a new section to the United States Code making it illegal for anyone engaging in the business of betting or wagering to knowingly accept any credit, electronic funds transfer, check, draft, etc. in connection with the participation of another person in unlawful internet gaming. In essence, the UIGEA act prohibits online gambling operators from receiving the proceeds of financial transactions in connection with internet gaming if the gaming is illegal in the state where the bettor is located. In addition, the United States Secretary of Treasury and Federal Reserve are directed under UIGEA to promulgate regulations which will require financial institutions to block transactions in connection with internet gaming

(draft regulations were issued in October 2007). In October 2006, the Group stopped taking bets from US customers.

On 5 June 2007, the Group announced that it had initiated preliminary discussions with the United States Attorney's Office for the Southern District of New York regarding activity prior to enactment of the legislation. It is too early to assess any particular outcome of these discussions.

It was recently found by the World Trade Organization that the US legislative position with respect to Internet Gambling violates US trade commitments. Following this decision, the US withdrew its trade commitment in the sphere of gambling; while several trade partners required compensation from the US following this withdrawal, none of the agreements reached, so far, between the US and some of these trade partners, have had an impact within the online gambling market. Antigua and Costa Rica did not reach agreement with the US, and applied to the WTO to arbitrate a settlement between them and the US, in connection with the withdrawal of the US commitment.

In December 2007, the Remote Gaming Association (a trade body representing several online gaming operators, of which the Group is a member) filed a complaint with the European Union against the US in connection with the breach of its trade commitments. Following this complaint, the European Commission decided to open an investigation into whether the United States is in breach of its WTO obligations in the sphere of gambling (in relation to the period prior to the withdrawal of its commitment). The investigation is expected to take five to seven months, at the end of which the Commission will present its findings, which could lead to the initiation of WTO proceedings.

The Board continues to monitor these developments closely, and is alert to changes as they may occur in areas where the Group operates.

## **Risk Report**

The Group operates in a new and dynamic business environment. In addition to the day to day commercial risks faced by most enterprises, the online gaming industry presents the Group with particular challenges in respect of Regulatory risk, Reputational risk, Information Technology risk and Taxation risk, each of which is detailed below.

### **Regulatory risk**

The regulatory framework of online gaming is dynamic and complex. Change in the regulatory regime in a specific jurisdiction could have a material adverse effect on business volume and financial performance in that jurisdiction. A detailed regulatory review is set out below.

### **Reputational risk**

The Group is exposed to the risk of under-age and problem gamblers accessing its online real money gaming sites. The Group devotes considerable resources in putting into place prevention measures coupled with strict internal procedures designed not to allow under-aged players from accessing its real money sites. In addition, the Group promotes a safe and responsible gaming environment to its customers supplemented by its corporate culture. The Group appointed a dedicated director of CSR & Responsible Gaming tasked with the responsibility of implementing such policies. Further details about the Group's responsible gaming initiatives are set out above.

### **Information technology risks**

As a leading online business, the Group's IT systems are critical to its operation. The Group is reliant on the performance of these systems whilst ensuring exposure to external risks is minimal.

Cutting-edge technologies and procedures are implemented throughout the Group's technology operations designed to protect its networks from malicious attacks and other such risks. These measures include traffic filtering, anti-DDoS (Distributed Denial of Service) devices, Anti-Virus protection from leading vendors and other such means. Physical and logical network segmentation is used to isolate and protect the Group's networks and restrict malicious activities. In order to ensure systems are protected properly and effectively, external security scan and assessments are carried out in a timely manner. In addition, the Group has recently implemented a new high-end storage solution enhancing storage availability and performance. All critical data is replicated to another storage device for disaster recovery purposes and all data is stored off-site on a daily basis.

In order to minimize dependencies on telecommunication service providers, the Group invests in network infrastructure redundancies whilst regularly reviewing its service providers.

As a part of its monitoring system, the Group deploys set user experience tests which measure performance from different locations around the world. Network-related performance issues are addressed by re-routing traffic using different routes or providers.

888 operate a 24x7 Network Operations Centre (NOC). The NOC's role is to conduct real time monitoring of production activities using state-of-the-art systems. These systems are designed to identify and provide alerts regarding problems related to systems, key business indicators and issues surrounding customer usability experience.

### **Taxation risk**

The Group aims to ensure that each legal entity within the Group is a tax resident of the jurisdiction in which it is incorporated and has no taxable presence in any other jurisdiction. While the Group's customers are located worldwide, certain jurisdictions may seek to tax such activity which could have a material adverse effect on the amount of tax payable by the Group or on customers' behaviour.

The Group benefit from favourable fiscal arrangements in some of the jurisdictions in which it has taxable presence without which its results would be adversely affected. All gaming activities are based in Gibraltar, where the Group currently benefits from a tax exempt status. A change of control or activity of a tax exempt subsidiary would result in the loss of its tax status. However, this is not expected to have a material adverse effect on the overall tax rate of the Group. The tax exempt status is due to expire by the end of 2010 when the Government of Gibraltar intends to introduce a new fiscal regime that complies with EU requirements. The replacement regime is still to be unveiled although the Gibraltar Government has pledged its commitment to maintain fiscal competitiveness and a low effective tax rate. The Group is required to pay a gaming tax, currently set at 1% of gaming yield, with an annual maximum cap of £425,000 in aggregate, in respect of its Casino, Poker, Bingo and Backgammon activities. From 2008, additional gaming tax at the same rate is due in respect of the Group's new Sports offering.

The Group's subsidiary in Israel, Random Logic Limited, and the Israeli branch of Intersafe Global Limited, have each entered into separate transfer pricing agreements on an arm's-length basis with the Israeli Income Tax Commissioner. The arrangements for Random Logic Limited are effective until 2010, while the arrangement for the Intersafe Global Limited branch has terminated on 31 December 2007. Accordingly, the Group is in the process of discontinuing the use of this branch and so does not intend to enter into a new agreement.

The operation in Antigua also benefits from a low tax regime further mitigated by the current small scale of the operation

## Financial Information

### Audited Consolidated Income Statement

for the year ended 31 December 2007

	Note	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
<b>Net Gaming Revenue</b>	2	<b>213,383</b>	157,000
<b>Other operating income</b>	2	<b>3,563</b>	-
<b>Total operating income</b>		<b>216,946</b>	157,000
Operating expenses		<b>64,864</b>	49,448
Research and development expenses		<b>23,496</b>	19,381
Selling and marketing expenses		<b>70,897</b>	51,037
Administrative expenses	4	<b>24,660</b>	28,653
Operating Profit before share benefit charges		<b>40,829</b>	17,310
Share benefit charges		<b>7,800</b>	8,829
Operating Profit	5	<b>33,029</b>	8,481
Finance income		<b>4,957</b>	4,883
Profit before tax before share benefit charges		<b>45,786</b>	22,193
Share benefit charges	19	<b>7,800</b>	8,829
<b>Profit before tax</b>		<b>37,986</b>	13,364
Taxation	6	<b>3,199</b>	3,117
<b>Profit from Continuing operations</b>		<b>34,787</b>	10,247
<b>(Loss)/Profit from Discontinued operations</b>	23	<b>(552)</b>	64,254
<b>Profit after tax for the year attributable to equity holders of parent</b>		<b>34,235</b>	74,501

	Note	Year ended 31 December 2007	Year ended 31 December 2006
<b>Earnings per share</b>			
<b>Continuing operations</b>	7		
Basic		<b>10.3¢</b>	3.0¢
Diluted		<b>10.1¢</b>	3.0¢
<b>Discontinued operations</b>	23(e)		
Basic		<b>(0.2)¢</b>	19.1¢
Diluted		<b>(0.2)¢</b>	18.8¢
<b>Total</b>			
Basic		<b>10.1¢</b>	22.1¢
Diluted		<b>9.9¢</b>	21.8¢

## Audited Consolidated Balance Sheet

at 31 December 2007

	Note	31 December 2007 US\$'000	31 December 2006 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	40,656	-
Property, plant and equipment	11	16,496	13,033
Financial assets	12	654	-
Deferred taxes	13	537	546
		<b>58,343</b>	13,579
<b>Current assets</b>			
Cash and cash equivalents	14	104,308	114,356
Trade and other receivables	15	19,530	9,669
		<b>123,838</b>	124,025
<b>Total assets</b>		<b>182,181</b>	137,604
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	16	3,097	3,073
Available for sale reserve		(105)	-
Retained earnings		89,735	83,929
<b>Total equity attributable to equity holders of the parent</b>		<b>92,727</b>	87,002
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	63,040	27,931
Member deposits		26,414	22,671
<b>Total liabilities</b>		<b>89,454</b>	50,602
<b>Total equity and liabilities</b>		<b>182,181</b>	137,604

## Audited Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Share capital US\$'000	Available for sale reserve US\$'000	Retained earnings US\$'000	Total US\$'000
<b>Balance at 1 January 2006</b>	3,068	-	29,262	32,330
Net Profit for the year	-	-	74,501	74,501
Dividend paid	-	-	(28,658)	(28,658)
Issue of shares	5	-	(5)	-
Share benefit charges	-	-	8,829	8,829
<b>Balance at 1 January 2007</b>	3,073	-	83,929	87,002
Net Profit for the year	-	-	34,235	34,235
Dividend paid	-	-	(36,205)	(36,205)
Issue of shares	24	-	(24)	-
Valuation (losses) of available for sale investments	-	(105)	-	(105)
Share benefit charges	-	-	7,800	7,800
<b>Balance at 31 December 2007</b>	<b>3,097</b>	<b>(105)</b>	<b>89,735</b>	<b>92,727</b>

The following describes the nature and purpose of each reserve within equity.

**Share Capital** – represents the nominal value of shares allotted, called-up and fully paid for.

**Available for sale reserve** – represents the gain or loss arising from a change in the fair value of an available-for-sale financial assets.

**Retained earnings** – represents the cumulative net gains and losses recognised in the consolidated income statement.

**Audited Consolidated Statement of Cash Flows**  
for the year ended 31 December 2007

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000	Year ended 31 December 2006 US\$'000
<b>Cash flows from operating activities</b>				
Profit before income tax	37,434		77,618	
<b>Adjustments for</b>				
Depreciation	4,192		3,801	
Loss on sale of property, plant and equipment	-		29	
Amortisation	1,550		-	
Interest received	(5,434)		(4,879)	
Share benefit charges	7,800		8,829	
	45,542		85,398	
(Increase)/decrease in trade receivables	(7,241)		6,346	
Decrease in related party balances	-		1,331	
Increase in other accounts receivables	(2,620)		(1,002)	
Increase/(decrease) in trade payables	2,186		(1,439)	
Increase/(decrease) in member deposits	3,743		(6,654)	
Increase in other accounts payables	7,663		3,527	
<b>Cash generated from operations</b>	49,273		87,507	
Income tax paid	(3,075)		(3,052)	
<b>Net cash generated from operating activities</b>		46,198		84,455
<b>Cash flows from investing activities</b>				
Acquisition of assets comprising of the online bingo business of Globalcom Limited (see note 9)	(17,142)		-	
Purchase of property, plant and equipment	(7,574)		(8,621)	
Proceeds from sale of property, plant and equipment	-		99	
Interest received	5,434		4,879	
Acquisition of available for sale assets	(759)		-	
<b>Net cash used in investing activities</b>		(20,041)		(3,643)
<b>Cash flows from financing activities</b>				
Dividends paid	(36,205)		(28,658)	
<b>Net cash used in financing activities</b>		(36,205)		(28,658)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(10,048)		52,154
Cash and cash equivalents at the beginning of the year		114,356		62,202
<b>Cash and cash equivalents at the end of the year</b>		104,308		114,356

## Notes to the Consolidated Financial Statements

### 1 General information

#### Company description and activities

888 Holdings Public Limited Company (the "Company") and its subsidiaries (together the "Group") was founded in 1997 and originally operated as a holding company domiciled in the British Virgin Islands. On 12 January 2000, the Company was continued in Antigua and Barbuda as a corporation under the International Business Corporation Act 1982 with registered number 12512. On 17 December 2003, the Company redomiciled in Gibraltar with the Company number 90099. On 4 October 2005, the Company listed on the London Stock Exchange.

The Group has developed and is the owner of innovative proprietary software applications solutions for virtual Casinos, for Poker rooms, e-commerce, credit-card clearing services and online advertising methodologies. The Group also offers Sports betting, Bingo games and Backgammon to end users as well as business partners.

Cassava Enterprises (Gibraltar) Limited and Brigend Limited (both subsidiaries) carried out the operations of the Group during the year, principally under the name [www.888.com](http://www.888.com) under the terms of a gaming license issued in Gibraltar.

#### Definitions

In these financial statements:

The Company	888 Holdings Public Limited Company.
The Group	888 Holdings Public Limited Company and its subsidiaries.
Subsidiaries	Companies over which the Company has control (as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements" and whose accounts are consolidated with those of the Company.)
Related parties	As defined in International Accounting Standard 24 – "Related Party Disclosures".
Emerging Offerings	Comprises of the group's offering of Bingo games to end users and business partners, Backgammon and betting exchange.

### 2 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are as follows:

#### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards ("IAS") and Interpretations, adopted by the International Accounting Standards Board ("IASB") and endorsed for use by companies listed on an EU regulated market.

The significant accounting policies applied in the financial statements of the Group in the prior years are applied consistently in these financial statements.

The financial statements are presented in thousands of US dollars (US\$'000) because that is the currency the Group primarily operates in.

The consolidated financial statements comply with the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies (Consolidated Accounts) Act 1999 and the Gibraltar Companies Act 1930.

Statutory accounts for the year ended 31 December 2007 will be made available following the Company's Annual General Meeting. The auditors have reported on those accounts and their report was unqualified and did not contain statements under section 10(2) of the Gibraltar Companies (Accounts) Act 1999 or section 182(1) (a) of the Gibraltar Companies Act. Statutory accounts for the year ended 31 December 2006 have been delivered to the Registrar of Companies in Gibraltar together with a report under section 10 of the Gibraltar Companies (Accounts) Act 1999. The audit report for both 2006 and 2007, without qualifying the opinion therein, draws attention to the issue set out in note 24 on Contingent Liabilities in the financial information.

The following standards and interpretations, issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

IFRS 7 – Financial instruments disclosure (effective for accounting periods beginning on or after 1 January 2007). Additional disclosure has been included in the Financial statements to comply with this standard.

IFRIC 7 – Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies (effective for annual periods beginning on or after 1 March 2006).

IFRIC 8 – Scope of IFRS 2 – Accounting for share-based payments (effective for annual periods beginning on or after 1 May 2006).

IFRIC 9 – Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).

IFRIC 10 – Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006).

## Notes to the Consolidated Financial Statements

### 2 Significant accounting policies continued

The following standards and interpretations, issued by the IASB or IFRIC, have not been adopted by the Group as these were not effective for the year 2007. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods:

IAS 1 (Amendment) – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) - IAS 1 has not been endorsed for use in the EU.

IFRIC 11 IFRS 2– Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 has been endorsed for use in the EU.

IFRIC 12 – Service concession arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 has not been endorsed for use in the EU.

IFRIC 13 – Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 has not been endorsed for use in the EU.

IFRIC 14– The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). IFRIC 19 has not been endorsed for use in the EU.

IAS 23 (Amendment) – Borrowing costs (effective for annual periods beginning on or after 1 January 2009). IAS 23 has not been endorsed for use in the EU.

IAS 27 – Consolidated and separate financial statements (effective for periods beginning on or after 1 July 2009). IAS 27 has not been endorsed for use in the EU.

IFRS 2 (Amendment) – Vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). IFRS2 (Amendment) has not yet been endorsed for use in the EU.

IFRS 3 (Revised) – Business combinations (effective for accounting periods beginning on or after 1 January 2009). IFRS 3 (Revised) has not yet been endorsed for use in the EU.

IFRS 8 – Operating segments (effective for annual periods beginning on or after 1 January 2009) contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is concerned only with disclosure and replaces IAS 14 – Segment reporting. IFRS 8 has been endorsed for use in the EU.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009). These amendments have not been endorsed for use in the EU.

### Critical accounting policies, estimates and judgments

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgments that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Included in this note are accounting policies which cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. These policies together with references to the related notes to the financial statements can be found below:

Taxation	Note 6
Intangible assets acquired	Note 9
Impairment of Goodwill	Note 10
Consolidation on the basis of control	Note 18
Share-based payments	Note 19
Regulatory compliance and contingent liabilities	Note 24

## Notes to the Consolidated Financial Statements

### 2 Significant accounting policies continued

#### Presentation of continuing and discontinued operations

As a result of enactment of the Unlawful Internet Gambling Enforcement Act ("UIGEA") in October 2006, the Group withdrew from offering real-money activity to the US facing market.

Although the Group did not operate the US facing business as a separate business, it was a separate geographical segment of the Group's business and in accordance with IFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations" the income statement and related notes are required to show continued and discontinued operations separately.

Net Gaming Revenue and certain direct costs associated with the discontinued operations, which are of distinct nature, were allocated accordingly. Other costs (such as R&D expenses, IT expenses, Share benefit charges, office rent and associated cost, depreciation of fixed assets, gaming duty, Directors and Officers insurance, Directors' fees and tax), which are not distinguishable, were all allocated to the continuing operations and not to the discontinued business. In allocating the rest of the costs of the Group between the two operations, management has applied reasonable estimates in accordance with applicable accounting standards. However, as estimates have necessarily been used in disclosing a geographical segment as discontinued operations, the results do not necessarily reflect the financial performance which would have been achieved had the discontinued operations been managed as a stand-alone business.

The matters described above mainly refer to the year ended 31 December 2006, as during 2007 any cost associated with the discontinued operations was clearly distinguishable.

#### Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries are companies controlled by 888 Holdings Public Limited Company. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date the parent gained control until such time as control ceases.

The financial statements of the subsidiaries are included in the consolidated financial statements using the purchase method of accounting. On the date of the acquisition, the assets and liabilities of a subsidiary are measured at their fair values and any excess of the fair value of the consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Inter-company transactions and balances are eliminated on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies.

#### Net Gaming Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the gaming transactions occurred.

Net Gaming Revenue is defined as follows:

##### Casino

Casino winnings that are the differences between the amounts of bets placed by members less amounts won by members.

##### Poker

Ring games: Rake, which is the commission charged from each winning hand played.

Tournaments: Entry fees charged for participation in Poker tournaments are recognized when the tournament has concluded.

##### Emerging Offerings

Net Gaming Revenue from Emerging Offerings is defined as the commission charged from winnings or entry fees charged for participation in a tournament. In the case of white label activity, Revenue is the net commission charged.

Casino winnings, revenues from the Poker business and Emerging Offerings are stated after deduction of certain bonuses granted to members.

#### Other operating income

Other operating income consists mainly of revenue generated from processing customers' cross currency deposits and withdrawals, effectively reducing costs associated with payment service providers.

## Notes to the Consolidated Financial Statements

### 2 Significant accounting policies continued

#### Foreign currency

Monetary assets and liabilities denominated in non-US dollar currencies are translated into US dollar equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates of the transactions. Exchange rate differences on foreign currency transactions are included in administrative expenses.

The results and financial position of all Group entities that have a functional currency different from US dollars are translated into the presentation currency as follows:

- (i) monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) exchange rate differences on translation of Group entities that have functional currencies different from US dollars are included in administrative expenses.

#### Taxation

The tax expense represents tax payable for the year based on currently applicable tax rates.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

#### Research and development costs

Research and development expenditure is charged to the statement of income as incurred. IAS 38 "Intangible Assets" requires capitalisation of certain software development costs, subsequent to technological and commercial feasibility being established and the Group having sufficient resources to complete development. Based on the Group's product-development process, technological feasibility and therefore the creation of substantially improved product, is only established upon the completion of a working model. The Group generally does not incur any significant costs between the completion of the working model and the point at which the product is ready for general release.

#### Intangible assets

Identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. The identified intangibles are amortised over the useful economic life of the assets. For acquisitions during the year 2007, the useful economic life of the intangible assets acquired is estimated to be between three months and four years. Intangible assets are reviewed annually for evidence of impairment.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of any assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement on the acquisition.

#### Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation. Carrying amounts are reviewed at each balance sheet date for impairment.

Depreciation is calculated using the straight-line method, at annual rates estimated to write off the cost of the assets less their estimated residual values over their expected useful lives. The annual depreciation rates are as follows:

IT equipment	33%
Office furniture and equipment	7–15%
Motor vehicles	15%
Leasehold improvements	Over the shorter of the term of the lease or useful lives

## Notes to the Consolidated Financial Statements

### 2 Significant accounting policies continued

#### Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

#### Financial instruments

The Group does not hold or issue derivative financial instruments for trading purposes

##### Trade receivables

Trade receivables are recognised at fair value and carried at amortised cost and principally comprise amounts due from the credit-card companies and from e-payment companies. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

##### Cash and cash equivalents

Cash comprises cash in hand and balances with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash. They include short-term bank deposits originally purchased with maturities of three months or less.

##### Equity

Equity issued by the Company is recorded as the proceeds received, net of direct issue costs.

##### Trade and other payables

Trade and other payables are recognised at fair value and carried at amortised cost.

##### Member deposits

Member deposits are the amounts that clients place in the Group's electronic "wallet" or bankroll, including provision for bonuses granted by the Group, less management fees and charges applied to member accounts, along with full provision for Casino jackpots. These amounts are repayable on demand in accordance with the applicable terms and conditions.

##### Available for sale financial assets

Available for sale financial assets comprise non-derivative financial assets not included in any of the above financial categories, are classified as available for sale and comprise principally the Group's investments in entities not qualifying as subsidiaries. They are carried at fair value with changes in fair value recognised directly in a separate component of equity. Where there is a significant decline in the fair value of an available for sale financial asset the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement

#### Chargebacks and returned e-cheques

The cost of chargebacks and returned e-cheques is included in operating expenses.

#### Leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases and rentals payable are charged to income on a straight-line basis over the term of the lease.

#### Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of a past event from which it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

#### Segment information

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a Group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group operates in the following online gaming segments:

- Casino
- Poker
- Emerging Offering is a new segment added during the year which comprises mainly of the newly acquired Bingo business and 888's Backgammon offering.

## Notes to the Consolidated Financial Statements

### 2 Significant accounting policies continued

#### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends this is when paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

#### Share based payments

Where the Company grant its employees or contractors shares or market value options, the fair value at the date of grant is charged to the income statement over the vesting period. Non-market performance conditions are taken into account by adjusting the number of instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of instruments that eventually vest.

### 3 Segment information

#### Business segments

	Year ended 31 December 2007			Consolidated US\$'000
	Casino US\$'000	Poker US\$'000	Emerging offerings US\$'000	
<b>Net Gaming Revenue</b>	118,120	80,817	14,446	<b>213,383</b>
<b>Other operating income</b>	2,111	1,452		<b>3,563</b>
<b>Total operating income</b>	<b>120,231</b>	<b>82,269</b>	<b>14,446</b>	<b>216,946</b>
<b>Result</b>				
Segment result	74,061	41,814	5,547	<b>121,422</b>
Unallocated corporate expenses <sup>1</sup>				<b>88,393</b>
Operating Profit				<b>33,029</b>
Finance income				<b>4,957</b>
Tax expense				<b>(3,199)</b>
Profit for the year – continuing operations				<b>34,787</b>
Profit for the year – discontinued operations (Note 23a)				<b>(552)</b>
<b>Profit for the year</b>				<b>34,235</b>
<b>Assets</b>				
Unallocated corporate assets				<b>182,181</b>
<b>Total assets</b>				<b>182,181</b>
<b>Liabilities</b>				
Segment liabilities – Poker <sup>2</sup>				<b>20,013</b>
Segment liabilities - Casino <sup>2</sup>				<b>5,533</b>
Segment liabilities – Emerging Offerings				<b>868</b>
Deferred acquisition liability – Emerging Offerings				<b>25,145</b>
Unallocated corporate liabilities				<b>37,895</b>
<b>Total liabilities</b>				<b>89,454</b>

1 Including share benefit charges of US\$7,800,000.

2 Included in segment liabilities are amounts owed in respect of discontinued operations. Poker US\$82,000 and Casino US\$13,000.

## Notes to the Consolidated Financial Statements

### 3 Segment information continued

	Year ended 31 December 2006		Consolidated US\$'000
	Casino US\$'000	Poker US\$'000	
<b>Net Gaming Revenue</b>	88,760	68,240	<b>157,000</b>
<b>Other operating income</b>	-	-	<b>-</b>
<b>Total operating income</b>	<b>88,760</b>	<b>68,240</b>	<b>157,000</b>
<b>Result</b>			
<b>Segment result</b>	<b>52,101</b>	<b>41,374</b>	<b>93,475</b>
<b>Unallocated corporate expenses<sup>1</sup></b>			<b>84,994</b>
Operating profit			8,481
Finance income			4,883
Tax expense			(3,117)
Loss for the year – continuing operations			10,247
Profit for the year – discontinued operations (Note 23a)			64,254
Profit for the year			74,501
<b>Assets</b>			
<b>Unallocated corporate assets</b>			<b>137,604</b>
Total assets			137,604
<b>Liabilities</b>			
<b>Segment liabilities – Poker<sup>2</sup></b>			<b>15,445</b>
<b>Segment liabilities - Casino<sup>2</sup></b>			<b>7,226</b>
<b>Unallocated corporate liabilities</b>			<b>27,931</b>
Total liabilities			50,602

<sup>1</sup> Including share benefit charges of US\$8,829,000.

<sup>2</sup> Included in segment liabilities are amounts owed in respect of discontinued operations. Poker US\$1,627,000 and Casino US\$573,000.

Other than where amounts are allocated specifically to the Casino, Poker and Emerging Offerings segments above, the expenses, assets and liabilities relate jointly to all segments. Any allocation of these items would be arbitrary.

### Geographical segments

The Group's performance can also be reviewed by considering the geographical markets and geographical locations within which the Group operates. This information is outlined below:

### Total operating income by geographical market

	Net Gaming Revenue	Other operating income	Total operating income	Total operating income
	Year ended 31 December 2007 US\$'000	Year ended 31 December 2007 US\$'000	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
UK	91,404	1,597	93,001	70,562
Europe	88,445	1,622	90,067	57,056
Americas (excluding USA)	17,684	344	18,028	17,601
Rest of World	15,850	-	15,850	11,781
Total operating income – Continuing operations	213,383	3,563	216,946	157,000
Total operating income - Discontinued operations ( Note 23a )	-	-	-	132,907
Total operating income	213,383	3,563	216,946	289,907

## Notes to the Consolidated Financial Statements

### 3. Segment information continued

#### Assets by geographical location

	Carrying amount of segment assets by location		Additions to property, plant and equipment	
	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Caribbean	454	357	51	281
Europe	161,168	121,008	2,546	1,832
Rest of World	20,559	16,239	5,058	6,508
	<b>182,181</b>	<b>137,604</b>	<b>7,655</b>	<b>8,621</b>

### 4 Administrative expenses

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Share benefit charges – all equity settled	7,800	8,829
Other administrative expenses	16,860	19,824
Administrative expenses – Continuing operations	24,660	28,653
Administrative expenses – Discontinued operations	552	7,284
<b>Administrative expenses</b>	<b>25,212</b>	<b>35,937</b>

### 5 Operating profit

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Operating profit is stated after charging:		
Staff costs	61,301	52,131
Audit fees	349	434
Other fees paid to auditors in respect of taxation services	26	179
Depreciation	4,192	3,801
Amortisation	1,550	-
Chargebacks and returned e-cheques	2,846	2,507
Exchange gains	(1,117)	(4,742)
Payment service providers' commissions	13,359	9,140
Share benefit charges – all equity settled	7,800	8,829

In the income statement total staff costs, excluding share benefit charge of US\$7,800,000 (2006: US\$8,829,000), are included within the following expenditure categories.

	2007 US\$'000	2006 US\$'000
Operating expenses	30,967	23,810
Research and development expenses	18,672	14,467
Administrative expenses	11,662	13,854
	<b>61,301</b>	<b>52,131</b>

At 31 December 2007 the Company employed 805 (2006: 736) staff.

## Notes to the Consolidated Financial Statements

### 6 Taxation

#### Corporate taxes

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Current tax	3,190	3,302
Deferred tax	9	(185)
<b>Taxation expense</b>	<b>3,199</b>	<b>3,117</b>

#### Analysis of current tax for the year

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Profit before taxation	37,434	77,618
<b>Current tax at the effective tax rate for the year</b>	<b>3,190</b>	<b>3,302</b>
Deferred tax	9	(185)
<b>Taxation expense</b>	<b>3,199</b>	<b>3,117</b>

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation:

**Gibraltar** – The Company and its Gibraltar registered subsidiaries are subject to the provisions of the Gibraltar Companies (Taxation and Concessions) Act (the “CTCA”) as a tax-exempt company. Subject to a change of ownership or activity of a tax-exempt company, the grandfathering of tax-exempt benefits in respect of existing tax-exempt companies will extend up to 31 December 2010. Domestic corporate tax in Gibraltar is 33% (2006: 35%). Gibraltar’s Chief Minister has announced further reductions in anticipation of the introduction of a flat low tax rate of between 10% and 12% in 2010. A consultation is in place with respect to the new tax regime in Gibraltar.

**Israel** – 888’s operations in Israel have entered into separate transfer pricing agreements on an arm’s-length basis with the Israeli Income Tax Commissioner. The agreement in respect of Random Logic Limited is effective until the end of 2010. The agreement in respect of the Israeli branch of Intersafe Global Limited was effective until the end of 2007. The Group is in the process of discontinuing the use of this branch and so does not intend to enter into a new agreement. Domestic corporate tax in Israel is 29% (2006: 31%).

**UK** – 888’s subsidiary in the UK pays corporate tax in the UK at the applicable rate of 30% (2006: 30%).

### 7 Earnings per share

#### Basic earnings per share from continuing operations

Basic earnings per share have been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares in issue during the year.

#### Diluted earnings per share

In accordance with IAS 33, “Earnings per share”, the weighted average number of shares for diluted earnings per share takes into account all potentially dilutive shares and share options granted, which are not included in the number of shares for basic earnings per share. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted averaged share price during the year and it would not be advantageous for the holders to exercise the option. The number of options excluded from the diluted EPS calculation is 4,765,036 (2006: 3,230,182).

## Notes to the Consolidated Financial Statements

### 7. Earnings per share continued

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Profit from continuing operations attributable to ordinary shareholders	34,787	10,247
Weighted average number of Ordinary Shares in issue	338,837,328	337,223,724
Weighted average number of dilutive Ordinary Shares	346,069,425	341,834,214
<b>Continuing operations</b>		
Basic	10.3¢	3.0¢
Diluted	10.1¢	3.0¢
<b>Discontinued operations (Note 23e)</b>		
Basic	(0.2)¢	19.1¢
Diluted	(0.2)¢	18.8¢
<b>Total</b>		
Basic	10.1¢	22.1¢
Diluted	9.9¢	21.8¢

### Earnings per share excluding share benefit charges

Reconciliation of profit to profit excluding share benefit charges:

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Profit from continuing operations attributable to ordinary shareholders	34,787	10,247
Share benefit charges	7,800	8,829
Profit excluding share benefit charges	42,587	19,076
Weighted average number of Ordinary Shares in issue	338,837,328	337,223,724
Weighted average number of dilutive Ordinary Shares	346,069,425	341,834,214
<b>Continuing operations</b>		
Basic earnings per share excluding share benefit charges	12.6¢	5.7¢
Diluted earnings per share excluding share benefit charges	12.3¢	5.6¢
<b>Discontinued operations (Note 23e)</b>		
Basic earnings per share excluding share benefit charges	(0.2)¢	19.1¢
Diluted earnings per share excluding share benefit charges	(0.2)¢	18.8¢
<b>Total</b>		
Basic earnings per share excluding share benefit charges	12.4¢	24.8¢
Diluted earnings per share excluding share benefit charges	12.1¢	24.4¢

### 8 Dividends

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Dividends paid	36,205	28,658

The Board of Directors will recommend to the Shareholders a final dividend in respect of the year ended 31 December 2007, of 5¢.

## Notes to the Consolidated Financial Statements

### 9. Acquisitions made during the year

#### Online Bingo business

On 16 May 2007 the Group acquired the assets comprising the online Bingo business of Globalcom Limited ("Bingo Business") for an all cash consideration.

In calculating the goodwill arising on acquisition, the fair value of the net assets of the Bingo business has been valued by a professional valuation firm and recognised in accordance with IFRS 3 and adjustments from book value have been made where necessary. These adjustments are summarized as follows:

	Book Value on acquisition US\$'000	Fair value adjustments US\$'000	Fair Value US\$'000
Property, plant and equipment <sup>1</sup>	81	-	81
Intangible assets <sup>2</sup>	200	4,114	4,314
<b>Net assets</b>	<b>281</b>	<b>4,114</b>	<b>4,395</b>

1 See note 11

2 See note 10

The fair value relates to the recognition of customer lists (US\$888,000), royalty agreements (US\$1,113,000), licensing agreements (US\$2,113,000) and other intangible assets (US\$200,000) acquired as part of the acquisition. These intangibles are being amortised over their estimated useful economic lives of between three months and four years. All intangible assets on acquisition have been identified and fair valued. The remaining goodwill represents the access to future trade with the Bingo customers.

	US\$'000
Fair value of net assets acquired	4,395
Goodwill	37,892
<b>Fair value of consideration including expenses</b>	<b>42,287</b>
Which is represented by:	
Cash consideration to Globalcom Limited	10,723
Deferred cash consideration to Globalcom Limited (paid during the year)	5,398
Deferred cash consideration to Globalcom Limited (included with other payables)	16,095
Earn-out payment (included with other payables) <sup>1</sup>	9,050
Expenses & other costs	1,021
<b>Total cash consideration</b>	<b>42,287</b>

1 A further earn-out payment of US\$9.05 million is payable in cash 12 months from completion on the basis of actual performance during financial year 2007, which was accomplished.

The revenue and operating profit generated from this acquisition in the post-acquisition period to 31 December 2007 were \$14.4 million and \$5.2 million, respectively. Had the business been owned for the entire year, the revenue and operating profit would have been \$20.2 million and \$8.3 million respectively.

### 10 Intangible assets

	Other intangibles US\$'000	Goodwill US\$'000	Total US\$'000
<b>Cost or valuation</b>			
At 1 January 2007	-	-	-
Acquisitions	4,314	37,892	42,206
<b>At 31 December 2007</b>	<b>4,314</b>	<b>37,892</b>	<b>42,206</b>
<b>Amortisation and impairment losses</b>			
At 1 January 2007	-	-	-
Charge for the year	1,550	-	1,550
Impairments	-	-	-
<b>At 31 December 2007</b>	<b>1,550</b>	<b>-</b>	<b>1,550</b>
<b>Carrying amounts</b>			
<b>At 31 December 2007</b>	<b>2,764</b>	<b>37,892</b>	<b>40,656</b>
At 31 December 2006	-	-	-

## Notes to the Consolidated Financial Statements

### 10. Intangible assets continued

The other intangible assets relate to the recognition of customer lists, royalty agreements, licensing agreements and certain software developed and acquired as part of the acquisition of the assets comprising the online Bingo business of Globalcom Limited. These intangibles are being amortised over their estimated useful economic lives of between three months and four years. The intangible assets have been identified and valued using third part professional valuers, and are based on their value in use to the business. Goodwill is associated with the cash generating online Bingo business acquired during the year.

In accordance with IAS 36 and IFRS 3, the Group regularly monitors the carrying value of its goodwill. A review was undertaken at 31 December 2007 to assess whether the carrying value of goodwill is supported by the net present value of future cash flows generated by these assets using cash flow estimates for 4 years.

The discount rate used for purposes of the review is the company specific weighted average cost of capital percentage of 19%. In estimating the future cash flows the Group has used very prudent estimates in respect of revenues generated and costs incurred.

The result of the review undertaken at 31 December 2007 was that no impairment is required and the carrying value of the intangible assets is appropriate.

### 11 Property, plant and equipment

	IT equipment US\$'000	Office furniture and equipment US\$'000	Motor vehicles US\$'000	Leasehold improvements US\$'000	Total US\$'000
<b>Cost</b>					
At 1 January 2006	10,614	2,077	459	5,202	18,352
Additions	3,163	254	-	5,204	8,621
Disposals	-	-	(163)	-	(163)
At 31 December 2006	13,777	2,331	296	10,406	26,810
Additions	4,156	105	110	3,203	7,574
Acquisitions	81	-	-	-	81
Disposals	(1)	-	-	-	(1)
<b>At 31 December 2007</b>	<b>18,013</b>	<b>2,436</b>	<b>406</b>	<b>13,609</b>	<b>34,464</b>
<b>Accumulated depreciation</b>					
At 1 January 2006	7,576	618	61	1,756	10,011
Charge for the year	2,085	208	128	1,380	3,801
Disposals	-	-	(35)	-	(35)
At 31 December 2006	9,661	826	154	3,136	13,777
Charge for the year	2,845	230	49	1,068	4,192
Disposals	(1)	-	-	-	(1)
<b>At 31 December 2007</b>	<b>12,505</b>	<b>1,056</b>	<b>203</b>	<b>4,204</b>	<b>17,968</b>
<b>Depreciated cost</b>					
<b>At 31 December 2007</b>	<b>5,508</b>	<b>1,380</b>	<b>203</b>	<b>9,405</b>	<b>16,496</b>
At 31 December 2006	4,116	1,505	142	7,270	13,033

### 12 Financial Assets

	31 December 2007 US\$'000	31 December 2006 US\$'000
Opening balance at the beginning of the year	-	-
Acquisition of available for sale assets during the year	759	-
Adjustment to market price at year end	(105)	-
	<b>654</b>	-

There were no disposals or impairment provisions on available for sale financial assets.

Available for sale assets are quoted equity securities, the fair value of which is based on their published market price.

## Notes to the Consolidated Financial Statements

### 13 Deferred taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Group's deferred tax assets resulting from temporary differences are as follows:

	31 December 2007 US\$'000	31 December 2006 US\$'000
Accrued severance pay	38	141
Provision for share option charge	181	176
Provision for vacation	300	213
Provision for convalescence	18	16
	<b>537</b>	<b>546</b>

### 14 Cash and cash equivalents

	31 December 2007 US\$'000	31 December 2006 US\$'000
Cash and cash equivalents	103,505	106,811
Restricted cash	803	7,545
	<b>104,308</b>	<b>114,356</b>

Restricted cash primarily relates to deposits held by banks for guarantees.

### 15 Trade and other receivables

	31 December 2007 US\$'000	31 December 2006 US\$'000
Trade receivables	13,430	6,189
Other receivables and prepayments	6,100	3,480
	<b>19,530</b>	<b>9,669</b>

The carrying value of trade and other receivables approximates to their fair value.

## Notes to the Consolidated Financial Statements

### 16 Share capital

Share capital comprises the following:

	31 December 2007 Number	Authorised		31 December 2006 US\$'000
		31 December 2006 Number	31 December 2007 US\$'000	
Ordinary Shares of £0.005 each	426,387,500	426,387,500	3,880	3,880
	<b>426,387,500</b>	<b>426,387,500</b>	<b>3,880</b>	<b>3,880</b>

	31 December 2007 Number	Allotted, called up and fully paid		31 December 2006 US\$'000
		31 December 2006 Number	31 December 2007 US\$'000	
Ordinary Shares of £0.005 each	337,618,820	337,096,320	3,073	3,068
Issue of ordinary shares of £0.005 each	2,489,215	522,500	24	5
	<b>340,108,035</b>	<b>337,618,820</b>	<b>3,097</b>	<b>3,073</b>

On 16 April 2007, the company issued 138,403 ordinary shares of £0.005 each in respect of shares exercised and nil cost options exercised as part of the company's employee share option plan (see note 19).

On 4 May 2007, the company issued 1,002,169 ordinary shares of £0.005 each in respect of shares exercised and nil cost options exercised as part of the company's employee share option plan (see note 19).

On 5 July 2007, the company issued 475,941 ordinary shares of £0.005 each in respect of shares exercised as part of the company's employee share option plan (see note 19).

On 20 September 2007, the company issued 212,174 ordinary shares of £0.005 each in respect of shares exercised and nil cost options exercised as part of the company's employee share option plan (see note 19).

On 4 October 2007, the company issued 649,777 ordinary shares of £0.005 each in respect of shares exercised and nil cost options exercised as part of the company's employee share option plan (see note 19).

On 10 October 2007, the company issued 10,751 ordinary shares of £0.005 each in respect of shares exercised as part of the company's employee share option plan (see note 19).

Shares issued are converted into US\$ at the exchange rate prevailing on the date of issue. The issued and fully paid share capital of the Group amounts to US\$3,098,000 (2006: US\$3,073,000) and is split into 340,108,035 (2006: 337,618,820) ordinary shares. The share capital in UK Sterling (GBP) is £1,700,540 (2006: £1,688,094) and translates at an average exchange rate of US\$1.82 (2006: \$1.82) to GBP.

### 17 Trade and other payables

	31 December 2007 US\$'000	31 December 2006 US\$'000
Trade payables	5,297	3,111
Corporate taxes	1,131	1,016
Other payables and accrued expenses	31,467	23,804
Deferred acquisition liability	25,145	-
	<b>63,040</b>	<b>27,931</b>

The carrying value of trade and other payables approximates to their fair value.

## Notes to the Consolidated Financial Statements

### 18 Investments in subsidiaries

Name	Country of Incorporation	Percentage of equity interest 2007 %	Percentage of equity interest 2006 %	Nature of business
Intersafe Global Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises Limited	Antigua	100	100	Member call centre operator
Virtual Services Limited	BVI	100	100	Advertising
Virtual Holdings Management Services (Gibraltar) Limited	Gibraltar	100	100	Operates Group headquarters
Intersafe Global (Europe) Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises (Gibraltar) Limited	Gibraltar	100	100	Gaming web site operator
Virtual Marketing Services (UK) Limited	UK	100	100	Advertising
Cassava Sports Limited	Gibraltar	100	100	Domain site owner through which a third party operates a betting exchange
Active Media Limited	BVI	100	100	Member call centre employer
Virtual Marketing Services (Gibraltar) Limited	Gibraltar	100	100	Marketing acquisition
Dixie Operation Limited	Antigua	100	100	Member call centre operator
Random Logic Limited	Israel	100	100	Research, development and marketing
Brigend Limited	Gibraltar	100	-	Bingo business operator
ACTeCASH Limited <sup>1</sup>	Gibraltar	-	-	e-Wallet service

1 On 20 December 2005, the Group took responsibility for the management of ACTeCASH Limited, a company with common shareholders. From this date ACTeCASH was managed as a unit of the Group and utilised staff employed by the Group. In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Group is deemed to have control of ACTeCASH by virtue of the fact it has the power to govern the financial and operating policies of this company and derives economic benefit from doing so. As such ACTeCASH has been consolidated as part of the Group.

### 19 Share-based payment

Prior to flotation, the Company adopted two equity-settled employee share incentive plans - the 888 All-Employee Share Plan and the Long Term Incentive Plan. Awards have been granted under the 888 All-Employee Share Plan conditional upon flotation. The 888 All-Employee Share Plan is open to all employees and Executive Directors of the Group who are not within six months of their normal retirement age at the discretion of the Remuneration Committee. Awards under this scheme will vest in instalments over a fixed period of up to four years.

The Company grants awards to certain executive directors and members of its senior management. These awards are subject to performance conditions imposed by the Remuneration Committee at the dates of grant.

Details of Shares and Share Options granted as part of the 888 All-Employee Share Plan and shares granted vesting immediately on IPO and thereafter:

#### Share options granted

	31 December 2007 Number	31 December 2006 Number
Outstanding at the beginning of the year	4,204,919	3,578,287
Market value options granted during the year	2,004,880	2,224,131
Market value options lapsed during the year	(1,121,352)	(1,597,499)
Outstanding at the end of the year <sup>1,2</sup>	5,088,447	4,204,919
Weighted average exercise price for options outstanding at the end of the year	£1.49	£1.67
Weighted average exercise price for options lapsed during the year	£1.64	£1.72

1 Of the total number of options outstanding at the end of the year 1,321,145 had vested and were exercisable at the end of the year (2006: 784,491).

2 Range of exercise price for options outstanding at the end of the year is £1.14 - £1.80 (2006: £1.44 - £1.80).

## Notes to the Consolidated Financial Statements

### 19. Earnings per share continued

#### Shares granted

	31 December 2007 Number	31 December 2006 Number
Outstanding at the beginning of the year	8,316,639	5,247,214
Shares granted – future vesting	5,218,255	5,595,219
Lapsed future vesting shares	(1,243,019)	(2,003,294)
Shares issued during the year	(2,489,215)	(522,500)
Outstanding at the end of the year	9,802,660	8,316,639

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled the 888 All-Employee Share Plan:

#### Valuation information

	2007	2006
Option pricing model used	Monte Carlo	Monte Carlo
Weighted average share price at grant date	£1.18	£1.61
Weighted exercise price	£1.19	£1.67
Risk free interest rate range	4.82-5.40%	4.30-4.70%
Expected volatility of the price of the underlying share	37-78%	53-67%

Exercise period of the market value options is from vesting until expiry of 10 years after grant date.

Monte Carlo model is taking into account all the minimum requirements set by IFRS 2 such as: the exercise price of the option, the current price of the underlying share, the expected volatility of the price of the underlying share, the expected dividend on the underlying share, the expected term of the option both contractual term and employees' expected behaviour and the risk-free interest rate for the expected term of the option.

In accordance with International Financial Reporting Standards a charge to the income statement in respect of any shares or options granted under the above schemes will be recognised and spread over the vesting period of the shares or options based on the fair value of the shares or options at the date at grant, adjusted for changes in vesting conditions at each balance sheet date. This charge has no cash impact.

#### Share benefit charges

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Charges in respect of share and option awards granted this year	1,756	2,527
Charges in respect of share and option awards granted in previous years	6,044	6,302
<b>Charge for the year</b>	<b>7,800</b>	<b>8,829</b>

### 20 Related party transactions

During the year the Group paid US\$290,401 (2006: US\$212,464) in respect of rent and office expenses to companies of which Mr John Anderson is a Director. At 31 December 2007 the amount owed to those companies was US\$nil (2006: US\$nil).

Remuneration paid to the Directors in the year totaled US\$4,328,000 (2006: US\$9,258,000).

Share benefit charge in respect of awards granted to the Directors totaled US\$3,163,000 (2006: US\$4,544,000).

### 21 Commitments

#### Lease commitments

Future minimum lease commitments under property operating leases for the year ended 31 December 2007 are as follows:

	31 December 2007 US\$'000	31 December 2006 US\$'000
<b>Leases expiring within</b>		
One year	2,278	3,060
Two to five years	7,533	8,204
	<b>9,811</b>	<b>11,264</b>

The amount paid in the year was US\$ 2,745,000 (2006: US\$2,620,000).

Lease commitments on the Group's property are shown to the date of the first break clause.

## Notes to the Consolidated Financial Statements

### 22 Financial risk management

The Group is exposed through its operations to risks that arise from use of its financial instruments. Policies and procedures for managing these risks are set by the Board following recommendations from the Chief Financial Officer. The Board reviews the effectiveness of these procedures and, if required, approves specific policies and procedures in order to mitigate these risks.

The main financial instruments used by the Group, on which financial risk arises, are as follows:

- Cash and cash equivalents
- Restricted cash
- Trade and other receivables
- Available for sale financial assets
- Trade and other payables
- Member deposits

Detailed analysis of these financial instruments is as follows:

	31 December 2007 US\$'000	31 December 2006 US\$'000
<b>Financial assets</b>		
Trade receivables	13,430	6,189
Other receivables	6,100	3,480
Cash and cash equivalents	103,505	106,811
Restricted cash	803	7,545
Available for sale financial asset	654	-
	<b>124,492</b>	<b>124,025</b>

In accordance with IFRS 7 with the exception of available for sale assets, all financial assets are classified as loans and receivables.

	31 December 2007 US\$'000	31 December 2006 US\$'000
<b>Financial liabilities</b>		
Trade payables	5,297	3,111
Other payables and accrued expenses	31,467	23,804
Deferred acquisition liability	25,145	-
Member deposits	26,414	22,671
	<b>88,323</b>	<b>49,586</b>

In accordance with IFRS 7 all financial liabilities are held at amortised cost.

At 31 December 2007 and 2006, the fair value and the book value of the Group's financial assets and liabilities were materially the same.

### Capital

The Capital employed by the Group is comprised of equity attributable to shareholders. The primary objective of the Group is maximizing shareholders' value, which, from the capital perspective, is achieved by maintaining the capital structure most suited to the Group's size, strategy, and underlying business risk. Other than disclosed elsewhere in note 22 there are no demands or restrictions on the Group's capital.

The main financial risk areas are as follows:

### Credit risk

#### Trade receivables

The Group's credit risk is primarily attributable to trade receivables who are the Group's payment service providers ("PSP"). These are third party companies that facilitate deposits and withdrawal of funds to and from the members' virtual wallet with the Group. These are mainly intermediaries that transact on behalf of the main credit card companies.

The risk is that a PSP would fail to discharge its obligation with regard to the balance owed to the Group.

The Group reduces this credit risk by:

- Monitoring those balances on a regular basis
- Arranging for the shortest possible cash settlements intervals
- Replacing rolling reserve requirements, where they exist, with a Letter of Credit by a reputable financial institution.
- Ensuring a new PSP is contracted following various due diligence and "Know Your Customer" procedures.
- Ensuring policies are in place to reduce dependency on specific PSP's.

The Group believes that based on the above and on extensive past experience, it is not required to provide for any potential bad debts arising from a PSP failing to discharge its obligation.

None of the balances owed by the various PSP are overdue or impaired.

## Notes to the Consolidated Financial Statements

### 22. Financial risk management continued

An additional credit risk the Group faces relates to members disputing charges made to their credit cards ("chargebacks") or any other funding method they have used in respect of the services provided by the Group. Members may fail to fulfil their obligation to pay which will result in funds not being collected. These chargebacks and uncollected deposits (or returned e-cheques), when occurring will be deducted at source by the PSP's from any amount due to the Group. As such the Group provides for these eventualities by way of a provision based on analysis of past transactions and estimated trends. This provision is netted off from the trade receivables balance and at 31 December 2007 was \$845,000 (2006: \$500,000).

The Group's in house Fraud and Risk Management department carefully monitors deposits and withdrawals by following prevention and verification procedures using internally developed bespoke systems integrated with commercially available third party measures.

#### *Cash and cash equivalents*

The Group controls its cash position out of its Gibraltar headquarters. Subsidiaries in its other locations (Israel, Antigua and London) maintain minimum cash balances which are deemed required for their operations.

Cash settlement proceeds from PSP's as described above, are paid into bank accounts controlled by the finance function in Gibraltar.

The Group segregates funds due to members and holds these funds in separate bank accounts. These funds are not used to fund activity other than that directly related to members.

The Group maintains its funds with highly reputable financial institutions and will not hold funds with financial institutions with a credit rating lower than A (based on Standard & Poor's rating).

The Group maintains its cash reserve in highly liquid deposits and regularly monitors rates in order to maximize yield.

#### *Restricted cash*

The group may be required to deposit cash collateral to secure a letter of credit that substitutes reserves required to be held by a PSP. Such deposit will be with a reputable financial institution instead of with the individual PSP. This decreases the cash balance with the PSP and therefore exposure. As at 31 December 2006, most of the restricted cash was of this nature. During the year 2007, the Group was able to substantially reduce those requirements and as at 31 December 2007, restricted cash is mainly attributed to a deposit in respect of the Group's obligation with the developer of the offices of its subsidiary in Israel.

The Group's maximum exposure to credit risk by type of financial instrument is summarized below:

	31 December 2007		31 December 2006	
	Carrying value US\$'000	Maximum exposure US\$'000	Carrying value US\$'000	Maximum exposure US\$'000
Trade receivables	13,430	13,430	6,189	6,189
Other receivables	6,100	6,100	3,480	3,480
Cash and cash equivalents	103,505	103,505	106,811	106,811
Restricted cash	803	803	7,545	7,545
Available for sale financial asset	654	654	-	-
	<b>124,492</b>	<b>124,492</b>	124,025	124,025

### Liquidity risk

Liquidity risk exists in the case where the Group will encounter difficulties in meeting its financial obligations as they become due.

The Group monitors its liquidity in order to ensure that sufficient liquid resources are available to allow it to meet its obligations.

In the case of the Group's liability to its members, the Group maintains these deposits in separate bank accounts which are not used for its day to day operations.

As at 31 December 2007, the Group had a deferred acquisition liability of US\$25,145,000 in respect of the acquisition of the online Bingo business of Globalcom Limited. The Group maintain sufficient funds to meet this liability which is due between April and May 2008. In addition the Group has assured that cash earmarked to fund its final dividend payment for 2007, is in place.

The Group expects to have sufficient liquidity to meet all of its financial obligations under all reasonably expected circumstances and will not need to resort to any debt borrowing.

## Notes to the Consolidated Financial Statements

### 22. Financial risk management continued

The following table details the contractual maturity analysis of the Group's financial liabilities:

	31 December 2007				
	Trade payables US\$'000	Other payables <sup>1</sup> US\$'000	Deferred acquisition liability US\$'000	Member deposits US\$'000	Total US\$'000
On demand	1,047	5,612	-	26,414	33,073
In 3 months	3,669	23,562	-	-	27,231
Between 3 months and 1 year	581	1,835	25,145	-	27,561
More than 1 year	-	458	-	-	458
	5,297	31,467	25,145	26,414	88,323

<sup>1</sup> Includes other payables, accrued expenses and provisions.

	31 December 2006				
	Trade payables US\$'000	Other payables <sup>1</sup> US\$'000	Deferred acquisition liability US\$'000	Member deposits US\$'000	Total US\$'000
On demand	390	6,647	-	22,671	29,708
In 3 months	2,148	12,919	-	-	15,067
Between 3 months and 1 year	573	3,174	-	-	3,747
More than 1 year	-	1,064	-	-	1,064
	3,111	23,804	-	22,671	49,586

<sup>1</sup> Includes other payables, accrued expenses and provisions.

### Market risk

#### Interest rate risk

The Group's exposure to interest rate risk is limited to the interest bearing deposits in which the Group invests surplus funds.

The Group's policy is to invest surplus funds in low risk money market funds or on call over night facilities. The Group also arranged with its principal bankers that excess funds are swept automatically across its accounts, every night, in order to maximize availability of funds for investments.

Downside interest rate risk is minimal as the Group has no borrowings. A 0.5% movement in bank interest rates would not have a significant impact on finance income for the year or the prior year.

#### Currency risk

The Group's overall financial risk arising from exchange rate fluctuations is a result of a miss-match between receipts which are denominated in US\$ and expenses part of which are denominated in foreign currencies, of which to be noted are the British Pound Sterling (GBP), the Euro (EUR) and the New Israeli Shekel (ILS). The Group continually monitors the foreign currency risk and takes steps to ensure that the net exposure is kept to an acceptable level, inter alia by using foreign exchange forward contracts designed to fix the economic impact of known liabilities. At 31 December 2007 and 31 December 2006, there were no outstanding forward contracts. There were no significant fair value movements on these contracts during the year.

The Group further mitigates that risk by way of natural hedging whereby a certain portion of funds collected from the PSP are settled in either GBP or EUR in order to fund its expenses denominated in these currencies.

## Notes to the Consolidated Financial Statements

### 23 Discontinued Operations

As a result of the matters fully described in note 24, the Group incurred legal expenses in assessing the extent of any contingent liability, if any.

#### (a) Consolidated Income Statement

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
<b>Net Gaming Revenue</b>	-	132,907
Operating expenses	-	28,086
Research and development expenses	-	-
Selling and marketing expenses	-	33,283
Administrative expenses	552	7,284
Operating (loss)/profit before reorganization costs	(552)	68,287
Charges in respect of reorganization costs	-	4,033
Operating (loss)/profit	(552)	64,254
Finance income	-	-
<b>(Loss)/profit from discontinued operations</b>	<b>(552)</b>	<b>64,254</b>

#### (b) Segment information

##### Business segments

	Year ended 31 December 2007		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
<b>Net Gaming Revenue</b>	-	-	-
<b>Result</b>			
Segment result	-	-	-
Unallocated corporate expenses			(552)
Operating loss			(552)
Net loss for the year	-	-	(552)

	Year ended 31 December 2006		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
<b>Net Gaming Revenue</b>	71,972	60,935	132,907
<b>Result</b>			
Segment result	40,186	37,678	77,864
Unallocated corporate expenses			13,610
Operating Profit			64,254
Net Profit for the year			64,254

Other than where amounts are allocated specifically to the Casino and Poker segments above, the expenses relate jointly to both segments. Any allocation of these items would be arbitrary.

## Notes to the Consolidated Financial Statements

### 23 Discontinued Operations continued

#### Geographical segments

#### Net Gaming Revenue by geographical market

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
USA	-	132,907
	-	132,907

#### (c) Profit from discontinued operations

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Profit from discontinued operations is stated after charging:	-	-
Staff costs	-	6,638
Chargebacks and returned e-cheques	-	15,465
Payment service providers' commissions	-	5,821

In note 23(c) total staff costs, are included within the following expenditure categories:

	2007 US\$'000	2006 US\$'000
Operating expenses	-	5,842
Administrative expenses	-	796
	-	6,638

#### (d) Cash flows from discontinued operations

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
Net cash (used)/generated in operating activities	(552)	53,506
Net cash generated from investing activities	-	2,244
Net cash used in financing activities	-	(14,951)
Net increase in cash and cash equivalents	(552)	40,799

#### (e) Earnings per share

	Year ended 31 December 2007 US\$'000	Year ended 31 December 2006 US\$'000
(Loss) Profit from discontinued operations attributable to ordinary shareholders	(552)	64,254
Weighted average number of Ordinary Shares in issue	338,873,328	337,223,724
Weighted average number of dilutive Ordinary Shares	346,069,425	341,834,214
Basic (Losses) earnings per share	(0.2)¢	19.1¢
Diluted (Losses) earnings per share	(0.2)¢	18.8¢

## Notes to the Consolidated Financial Statements

### 24 Contingent liabilities

From time to time the Group is subject to legal claims and actions against it. The Group takes legal advice as to the likelihood of success of such claims and actions.

#### **Regulatory issues**

As part of the Board's ongoing regulatory compliance and operational risk assessment process, the Board continues to monitor legal and regulatory developments, and their potential impact on the business, and continues to take appropriate advice in respect of these developments.

Following the enactment of the UIGEA on 13 October 2006, the Group stopped taking any deposits from customers in the US and barred such customers from wagering real-money on all of the Group's sites.

Notwithstanding this, there remains a residual risk of an adverse impact arising from the Group having had customers in the US prior to the enactment of the UIGEA. The Board is not able to identify reliably at this stage what if any liability may arise and accordingly no provision has been made.

On 5 June 2007 the Group announced that it has initiated preliminary discussions with the United States Attorney's Office for the Southern District of New York. It is too early to assess any particular outcome of these discussions.

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